

21 February 2025

Director
Financial Reporting System Reform Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: FRSReform@treasury.gov.au

Dear Sirs,

RE: Consultation Paper: Positioning Australia's financial reporting system for the future Designing a single, flexible standard setting body (Consultation Paper)

Who we are

A national membership association, Governance Institute of Australia (Governance Institute) advocates for governance and risk management professionals, providing community and support to over 7,500 members.

As an Institute of Higher Education, the Governance Academy provides practical training and expert insights, equipping professionals with the tools to excel in their roles and drive better decision-making in their organisations.

Our members have primary responsibility for developing and implementing governance frameworks in public listed, unlisted, and private companies, as well as the public sector and not-for-profit organisations. They have a thorough working knowledge of the operations of the markets and the needs of investors. We regularly contribute to the formation of public policy through our interactions with Treasury, ASIC, APRA, ACCC, ASX, ACNC and the ATO. We are a founding member of the ASX Corporate Governance Council. We are also a member of the ASIC Business Advisory Committee, the ASX Business Committee and the ACNC Sector Users Group.

This Submission does not respond to all questions in the Consultation Paper but focuses on the issues of interest and concern to our members.

Preliminary comments

Treasury canvassed the amalgamation of the Financial Reporting Council (FRC), the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) in its December 2022 Consultation Paper.¹ Our Submission to that consultation expressed members' cautious support for the amalgamation as an effective way to 'future proof' Australian financial reporting. However, we noted that at that point, maintaining the status quo would probably be the most effective

¹ See [Climate-related financial disclosure](#), 12 December 2022, The Treasury at p. 17.

structure as an interim measure given the rapid pace of standards development.² Given that the climate-related financial disclosure legislation passed in September 2024 and Group 1 entities are currently preparing for their first reports, our members acknowledge this may be an opportune time to consider the Australian standard setting institutional arrangements.

One of the most important aspects of the proposals will be ensuring that the new body has an effective governance framework to ensure a clear and shared understanding by all parties of their roles, powers, responsibilities and accountabilities. This will strengthen accountability and protect against the involvement of key participants in areas reserved for others.³ This is particularly the case since the new body will have both an oversight role, currently the responsibility of the FRC, and a standard setting role, currently the responsibility of the AUASAB and AASB. Our members consider it is critical to preserve the independence of the standard setting bodies.

Our members support the maintenance of the standards as disallowable instruments. While infrequently used in practice, the disallowance process, is an important safeguard.

Design Principles

Flexibility – ensuring the institutional arrangements are positioned for the future

While our members acknowledge the importance of Australia's financial reporting framework being sufficiently flexible to keep pace with international best practice financial reporting, flexibility should not be at the expense of strong governance arrangements for the new merged body. Our members consider key matters such as the powers and responsibilities, size and structure and number of the board and its committees should be set out in the legislation. They also consider that the matters set out in the diagram on page 9 of the Consultation Paper should be included in the legislation.

Preserving as far as practicable, key features of the current institutional arrangements that work well

Our members endorse the comments in the Consultation Paper about the importance of minimising disruption to ongoing standards development and reducing the impacts of uncertainty on stakeholders and markets. The AASB and AUASB both have access to individuals with a high variety of skills, experience and expertise. Retaining these skills, expertise and experience will be critical as more entities transition to climate-related financial disclosure and the sustainability standards are developed.

Australia has historically had a strong involvement in the development of international reporting standards. Our members consider the new body should continue to involve Australia in global standard setting.

Ensuring institutional accountability

Our members endorse the comments in the Consultation Paper around the need for a mechanism to disclose conflicts of interest. There will also need to be strong processes for the management of conflicts of interest. Our members support the replication of the current AASB/AUASB termination provisions for members of the new Board. The circumstances in which termination is possible should be set out in the legislation.

Other matters

- Our members consider that neither the new Board nor the CEO should have power to veto standards. It is extremely important that the Board as the oversight body should not be able to veto standard setting. This is an important aspect of the current FRC that needs to be preserved.
- The selection and appointment of suitably qualified individuals to the new Board will be key. The assistance of a suitably qualified nomination committee would be a useful way to inform this

² See [Climate-related financial disclosure](#), 24 February 2023, Governance Institute of Australia at p. 6.

³ See [Governance principles for boards of public sector bodies in Australia](#), Governance Institute of Australia, 2023.

process. While our members agree there is a need for independence from industry, they do not consider that all Board or standard setting committee members must be independent. A preferable approach would be to require a majority of independent members. This would have the benefit of giving the Board access to industry expertise but make it harder for any individual or small group of individuals to dominate the Board's decision-making and maximise the likelihood that Board decisions will reflect the best interests of the entity and the public interest. The Board and Committee members should also have representation from different sectors and firms, entity size and type, including skills in reporting for small business and the not-for-profit sector. The appointment process should:

- be consistent, merit-based and aligned to the needs and strategy of the new body
 - take into account Board succession needs, with an emphasis on the timing required for replacement Board members to maintain a balance between new and existing members
 - identify the current skills, knowledge, experience and capabilities of the Board and identify any gaps in skills or competencies, including behavioural competencies, that can be addressed in future appointments
 - consider the unique environment or context in which the new body will operate
 - consider board diversity, and
 - allow for a formal application process that is publicly advertised to promote transparency and encourage quality applicants to apply.⁴
- The new body must have sufficient funding to enable it to carry out its role as well as access to adequate technical and human resources.
 - It will take time to implement the proposals in the Consultation Paper and our members encourage the allowance of sufficient time to transition to the new arrangements to ensure that the momentum of the current standard setting processes is maintained.

If you have any questions in connection with this Submission, please contact me or Catherine Maxwell, General Manager, Policy and Advocacy.

Yours faithfully,

(Sgd) Megan Motto, CEO

⁴ See Footnote 3 at p. 15.