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Director  
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The Treasury  
Langton Crescent  
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To Whom It May Concern

## **Financial reporting system reform – consultation paper**

The Property Council of Australia (the Property Council) welcomes the opportunity to respond to Treasury's consultation paper (the paper) on reforms to Australia's financial reporting system, including the creation of a single, accountable body in order to streamline Australia's financial reporting architecture.

The Property Council is the peak body for owners and investors in Australia's \$670 billion property industry. We represent owners, fund managers, superannuation trusts, developers, and investors across all four quadrants of property investments: debt, equity, public and private.

Members of the Property Council have varied reporting and disclosure requirements, from lodging financial reports with the Australian Securities and Investments Commission (ASIC), to periodic reporting as part of the ASX listing rules, to emerging climate-related financial disclosures.

### **The rationale for change**

The reasoning provided by Treasury for changing the existing institutional settings around the Financial Reporting Council (FRC), Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) is insufficient, as it has failed to adequately explain what material benefit will be made to standard setting, as well as to preparers and users of financial and climate statements.

The Property Council agrees that changing international settings, such as a growing recognition of environmental, social and governance (ESG) factors, requires the government, its agencies and independent bodies to be more agile and able to adapt to changing circumstances. However, that agility should not trump good governance practices and an existing regime which, for the most part, has met the needs of industry.

The paper refers to the difficulties the current institutional settings have posed in responding to developments in reporting, such as seen during the introduction of climate-related financial disclosures. As such and without a dedicated statutory board for sustainability, the AASB was responsible for developing the Australian Sustainability Reporting Standards (ASRS).

The introduction of a separate sustainability reporting standards board, potentially established by an amendment to the *Australian Securities and Investments Commission Act 2001* (ASIC Act), could occur independently of any wider institutional reforms, and would avoid some of the governance challenges posed by the proposed models, such as concerns regarding independence of standard setting committees.

The other proposed benefits of the new institutional arrangements are also limited. The streamlining of administrative operations, which include the reduction of a secretariat function provided by Treasury, is not quantified, and the existing AASB and AUASB already share resources.

### **The independence of standard setting committees**

It is critical that any new institutional arrangements appropriately protect the independence of the standard setting committees, commensurate with their existing protections as statutory boards.

As their own boards, the AASB and AUASB are independent of the FRC, which is critical to ensure that any decision made by the standard setters maintains integrity – as outlined in the paper, the FRC currently holds no direction or veto power over the boards.

The proposed indicative future structure will have a new board which sits above the standard settings committees, and which they report to. Whilst acknowledging that adapting to a single oversight body is a significant change, Treasury has not explained sufficiently how the day-to-day technical standard setting functions will maintain their independence from, and manage potential conflicts of interests with, the oversight board.

These issues of real or perceived conflicts of interest can be addressed by maintaining the existing institutional arrangements.

### **Board and committee appointment eligibility**

The paper provides an example for eligibility to the proposed new board and standard setting committees, as a requirement of having not worked in an accounting or auditing firm for a specified period, or otherwise not having financial ties to a firm.

There are significant issues with this approach, centred on the notion that the preparers of financial and sustainability statements would not have their interests or viewpoints represented at the board or committee level.

The boards and committees should retain the critical expertise of practicing accountants and auditors while maintaining appropriate procedures to disclose and manage perceived or real conflicts of interest, as such the Property Council strongly supports having practicing accountants and auditors sitting on the appropriate standard setting boards or committees.

In addition, as part of their functions the standard setting committees should maintain a formal mechanism for industry consultation, separate and in addition to ad-hoc consultation for new standards or disclosure regimes, which would allow direct engagement between the committee and industry.

### **Maintaining the confidence of capital markets**

Australia's existing institutional arrangements maintain the confidence of global capital markets, and any proposed changes should be canvassed widely before any change is undertaken. Treasury must propose an updated model for detailed consultation prior to any decision by government, or legislation drafted or tabled in the Parliament.

Any degradation in Australia's financial reporting credibility will undermine Australia's attractiveness for foreign capital and cross-border investment – as such, Treasury should be considerate and consult carefully when developing any final model.

The Property Council would welcome the opportunity to discuss this submission in more detail. Please contact Dan Rubenach, Policy Manager at [drubenach@propertycouncil.com.au](mailto:drubenach@propertycouncil.com.au) to arrange a meeting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Antony Knep', with a stylized flourish at the end.

Antony Knep  
**Executive Director – Capital Markets**



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