



21 February 2025

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

By email: FRSReform@treasury.gov.au

Dear Director

Positioning Australia's financial reporting system for the future

The Australian Financial Markets Association (AFMA) is responding to the Consultation Paper entitled 'Positioning Australia's financial reporting system for the future' dated January 2025.

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy and other specialist markets, including environmental products, carbon and sustainability related and linked products. Our membership base is comprised of over 130 of Australia's leading financial market participants, from Australian and international banks, leading brokers, securities companies and state government treasury corporations to asset managers, energy companies and industry service providers. Many AFMA members are impacted reporting entities.

Unacceptable Consultation Process

The starting point is our continuing strong criticism of the Treasury in issuing consultations on very important reforms with unworkable short consultation periods. There is no urgency with this reform project as the current arrangements have worked well for industry. Despite our constant complaint on consultation processes to the Treasury there is no improvement in behaviour. We see the outcome of this approach being poorly designed laws that create costly implementation problems for industry. There is no justification for industry already labouring under an enormous regulatory burden of badly designed

laws and their administration, which has been very powerfully detailed in the Australian Law Reform Commission's Final Report 141, to be further assailed with disruptive reform without adequate public debate and consultation.

On this basis alone we would object to the Government's proposal.

Consultation questions

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?

What is striking about the proposal is the internalisation into Treasury of the new body with inadequate corporate governance arrangements and accountability to industry. While the Consultation Paper points to the UK Financial Reporting Council as a model it is striking how differently it is established as an independent statutory body with a broader remit covering UK's Corporate Governance and Stewardship Codes. In addition, there is a process to reform to the Audit, Reporting and Governance Authority (ARGA).

AFMA is of the view that Treasury is too narrowly focused on just financial reporting oversight and there should be a wider analysis of the role and relevance of other groups, such as the ASX Corporate Governance Council, industry standard setters in the ESG space, especially as at the core of what is happening is about implementation of sustainability reporting standards.

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

There is no clear explanation of how issuing standards and transparency would work with industry. The Consultation Paper speaks only of an "expectation". The legislation () should set out how this is to be done. To permit flexibility this can also be done through subordinated legislation in the form of regulations.

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?

The suggestion that candidates “*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)*” is problematic. An appropriate mix of skills and experience will help maintain confidence in the work of the Board and committees. At least several appointments should have current accounting and audit experience.

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?

The question of institutional governance arrangements and oversight is of high importance to industry. The proposals are too vague to be satisfactory and more work needs to be done with industry to look at how this should be best achieved.

Summary

In summary, the current proposals in the Consultation Paper have not been adequately developed with the aid of industry consultation and are not acceptable in their current form.

Any questions on this letter should be directed to myself, David Love, at dlove@afma.com.au or on 0415 903 412.

Yours sincerely



David Love
General Counsel