THE DETERMINANTS AND INFORMATIVENESS OF VOLUNTARY CLIMATE AND SUSTAINABILITY RELATED FINANCIAL DISCLOSURES IN AUSTRALIA

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SOME COMMENTS

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BRIEF SUMMARY

- To be useful to a standard setter, research needs to help answer at least one of the following:
  - ➢ Is there a problem?
  - ➢ Why does the problem exist?
  - ➢ Would a new or modified standard be a suitable solution?
- A problem is often diversity in practice, but does diversity have a good explanation? Academic research often helps us understand why diversity exists, which is a pre-cursor to having solid ground directed at reducing such diversity
- This paper focuses on voluntary disclosures regarding climate and other sustainability-related financial disclosures (CSRFD).
- Also seems to make assumptions that ideally, would be based on evidence
  - ➢ Increased transparency and standardized reporting on CSRR would enable better informed decision making and would *help mitigate financial impacts (???)*

SOME THOUGHTS

- Admission: I found the paper hard to read – way too many acronyms (CSRR, CSRP, CSRFD)
- Hard to understand the relevance of each type of test documenting some form of empirical association:
  - (Depreciation and amortization
  - Audit fees
  - Value relevance of financial information
- Why do these three “associations” help me as a standard setter
- Do they suggest disclosure should be mandatory?
- Paper relies on a “black box” – is it consistent with regulators’ understanding existing disclosure requirements – hard to interpret a “black box”.
- What does Tobin’s Q add to tests based on market price?
- The authors conclude that the variation in the dependant variable (depreciation, audit fees, market values) reflects type of firm rather than the type of voluntary disclosure – what does this mean for a standard setter?

CONCLUSIONS

- “Collectively the results suggest that mandating climate and sustainability financial statements disclosure would force riskier firms to provide disclosure” – wouldn’t mandatory disclosure quantum effect depend on what was made “mandatory”? Is the paper concerned with disclosure variation that would be reduced by mandatory proposals (how well does the word search method capture this).
- Such (mandatory) disclosure ”may not necessarily result in informative disclosures unless regulators issue detailed industry-specific guidance that encourages firms to provide meaningful disclosures”. Again, how is this conclusion reached and how does it intersect with current or possible standard proposals?