

Thursday 15 December 2022

Corporations Branch
Market Conduct Division
Treasury
Langton Crescent
Parkes, ACT, 2600

Dear Treasury

Exposure Draft for Consultation: Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards

Thank you for the opportunity to comment on the *Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards (Exposure Draft)*.

The AICD's 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 more than 50,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits, large and small businesses and the government sector.

The AICD strongly supports the goal of implementing high quality, easy to understand and comparable sustainability reporting. We have consistently heard from members that there is a need to consolidate competing existing non-financial reporting frameworks to address growing investor demand for high quality sustainability reporting and disclosures that are aligned with a global baseline.

To facilitate the development of sustainability standards, the AICD welcomes the current consultation and provides the following comments:

1. We support the amendment of the ASIC Act to provide an explicit mandate to the Australian Accounting Standards Board (**AASB**), Auditing and Assurance Standards Board (**AUASB**) and the Financial Reporting Council (**FRC**) to implement, assure and monitor sustainability standards. Given these bodies' familiarity with implementing international standards into Australia, we consider that, at least as an interim step, these organisations should have the legal power to undertake the same process in respect of the sustainability standards. Given the significant scope of this project and its importance to our members, it is crucial that these bodies have the relevant resources and expertise (including climate and sustainability competency) to execute this important role. Whether these three bodies are best placed to have more permanent responsibility for climate and sustainability reporting in Australia is a question that requires further consideration, and has been posed by the Climate Reporting Consultation issued by Treasury on 12 December 2022 (**Climate Reporting Consultation**). We will provide additional comment on these governance issues via that separate process.
2. The AICD supports the goal of developing a single set of global sustainability standards, which is explicitly referred to in paragraphs 8 and 17 of the Exposure Draft. Further, we consider that any sustainability standards implemented within Australia should, as far as practicable, be aligned with the global baseline, namely the sustainability and climate reporting standards of the International Sustainability Standards Board (**ISSB**), which are expected to be finalised in 2023.

However, we are also cognisant of the fact that there are some regulatory differences between jurisdictions, and that sustainability standards need to ensure that they can be practically applied in Australia. In other words, the surrounding regulatory environment should facilitate comprehensive, good faith local adoption of the standards. For example, it will be necessary to consider how the standards interact with current directors' reporting requirements under the Corporations Act, including in relation to the directors' report and the Operating and Financial Review more specifically. It will also be necessary to consider how the ISSB standards if adopted in substantially their current form locally, will impact liability for the making of representations as to future matters (i.e. forward looking statements). These are issues that are of significant concern for our members, and we note we have provided detailed comment on this topic in the AICD's earlier submission to the AASB on the ISSB's IFRS S1 and S2 Exposure Drafts.¹ We also note that the Climate Reporting Consultation has specific questions on liability issues which we will address in our forthcoming submission. In our view, these liability issues will need to be addressed comprehensively and holistically for there to be successful domestic implementation.

3. We welcome the recognition at paragraph 25 of the Exposure Draft of the need to have regard to the suitability of sustainability standards for different types of entities, and how sustainability requirements may differ in their applicability across different entity types. The readiness of entities to comply with disclosure requirements differs based on sector, company size, resources and experience on climate issues. For example, the measurement and reporting of the Scope 3 emissions contemplated by the ISSB Standards is very complex, and will present particular challenges for certain sectors as well as smaller, resource constrained entities.
4. We recommend that any Australian sustainability standards consider the broad range of reporting entities and ensure that the standards provide for an appropriate transition timeframe to accommodate the uplift in skills and capability required. We also suggest that the initial focus should be on significant for-profit entities, especially those listed on the ASX (e.g. ASX 200) or with a large carbon footprint. In this regard, we note that the Climate Reporting Consultation also considers issues regarding thresholds and phase-in options for mandatory climate reporting which we will provide more detailed comment on.
5. We welcome the Exposure Draft's update to the qualifications required of AASB and AUASB members to include science, sustainability or climate change. The AICD considers that enhancing climate competency at senior levels (including, for companies, at the director and board level) is crucial to accelerating the low-carbon transition. As noted above in paragraph 1, given the amount of work anticipated to be involved in this project, we emphasise the need for the AASB, AUASB and FRC to have senior leaders, as well as teams more broadly, with relevant expertise in sustainability and climate.

We note that many of the issues addressed by the Exposure Draft, such as which entities should have responsibility for long-term administration of climate and sustainability reporting, and the extent to which alignment with international standards should occur, are also covered by the Climate Reporting Consultation. We encourage Treasury to ensure that these two consultations, and any other forthcoming

¹ <https://www.aicd.com.au/content/dam/aicd/pdf/news-media/policy/2022/AICD-Submission-AASB-ISSB-Standards-July%202022.pdf>

consultations, are effectively coordinated so that stakeholder views are considered holistically, and to minimise the challenges associated with responding to overlapping consultations.

Next steps

We hope our submission will be of assistance to Treasury. If you would like to discuss any issues raised in this letter, please contact Christian Gergis, Head of Policy at cgergis@aicd.com.au or Anna Gudkov, Senior Policy Adviser at agudkov@aicd.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Louise', with a long horizontal flourish extending to the right.

Louise Petschler

General Manager, Education and Policy Leadership