Australian accounting academics
researching sustainability/ climate
change accounting and reporting

The Treasury
Australian Government
climatereportingconsultation@treasury.gov.au

December 2022

Consultation: "Empowering the AASB to deliver sustainability standards" – open 28th November to 16th December 2022

We write in response to your consultation at https://treasury.gov.au/consultation/c2022-340878 concerning the *Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards.* We are Australian accounting academics, resident in Australia, researching sustainability and climate change accounting and reporting.

In relation to the Exposure Draft, Explanatory Materials we raise the following concerns for which we have below proposed amendments:

- Para 1.4 states *"The feedback expressed a strong demand from Australian businesses, investors, financial institutions, and users and preparers of financial information, for Australian sustainability standards to align with the ISSB baseline."* In fact, substantial concerns have been raised in response to consultations with the ISSB's conceptual framework and its focus on financial materiality and the supposed information needs of investors (Adams and Mueller, 2022). Investors are seeking a double materiality approach (as is being mandated in the EU) that also focusses on the impact of organisations on sustainable development. A double materiality approach better serves Australia's commitment to the United Nations' Sustainable Development Goals and would better meet the calls from respondents to the Australian Senate Inquiry on the SDGs. (Abhayawana, Adams and Neesham, 2021)
- Para 1.6 refers to "sustainability standards". The ISSB is not developing "sustainability standards". The ISSB states its focus is on the *reporting* needs of *investors*. This is not about sustainability reporting more broadly and the focus is not sustainable development. What is being developed is effectively a refinement to general purpose financial reporting (GPFR). Sustainability-related standards, by contrast, would address the sustainability-related information needs of a broad cross section of stakeholders (see Deegan 2013; 2023)
- Para 1.9 and Para 1.18 make reference to alignment with the ISSB standards. We are concerned about reference to the ISSB Standards only. Aligning with the GRI Standards as well as the ISSB Standards would better suit the information needs of investors as well as other stakeholders and better protect Australian social and environmental interests. KPMG (2022) found that 77% of ASX100 companies use GRI Standards and that they are the most used sustainability reporting standard in Australia[1]. We call on

[1] See https://home.kpmg/au/en/home/insights/2022/10/sustainability-reporting-survey-2022.html

Treasury to also reference the GRI Standards as we expect that globally both sets of standards will continue to co-exist.

- Para 1.10 refers to financial information but investors and other stakeholders want other qualitative and quantitative information on corporate approach and performance (Arora, Lodhia and Stone, 2022).
- Para 1.13 refers to the conceptual framework. We note that many responses to the ISSB including those from academics researching in the field (see Adams and Mueller, 2022) presented an evidence-based case that the ISSB's conceptual framing is insufficient and that the focus on financial materiality alone is inappropriate for voluntary or mandatory sustainability reporting.
- Para 1.26 means that the AASB could continue to have no or limited expertise in climate change and sustainable development issues. This is a matter of significant concern.

Recommended changes to the Exposure Draft:

1. In addition to the ISSB, subsection 5(1) (amendment no. 1) refer to the Global Reporting Initiative (GRI) Standards and does not preference standards from either body.
2. The amendment to para 224(a) (amendment no. 2) be to insert "sustainability reporting standards", not "sustainability standards" and other affected (sub)paragraphs be amended accordingly.
3. Re the insertion after subsection 225(1) (amendment no. 8), delete (1A)(c)(iii) "sustainability standards" as it is inappropriate to have only one set of sustainability reporting standards when they use only a financial materiality approach and for an investor only audience. We expect that globally both the ISSB and GRI standards will co-exist as they fulfil different investor (and other stakeholder) needs.
4. Delete proposed new para 227(1)(d)(ii) (amendment no. 17) referring to a single set of sustainability standards (see previous points).
5. Re proposed new subsections 227(4), (5) and (6) (amendment no. 19) and subsection 236A(2)(b) (amendment no. 29) add reference to "and/or global sustainability reporting standards".

Signatories

Professor Carol Adams BA MSc PhD CA FAICD, Professor of Accounting, Durham University Business School, UK and Editor, *Sustainability Accounting Management and Policy Journal* and the *Handbook of Accounting and Sustainability*

Dr Subhash Abhayawansa MBA PhD CA CPA ACMA, Associate Professor (Professor from 1/1/23) in Accounting, Swinburne University of Technology and Co-Chair, Social and Environmental Sustainability in Organisations Research Group

Professor Jane Andrew BCom PhD CPA, Professor of Accounting, University of Sydney and Co-Editor-in-Chief, *Critical Perspectives on Accounting*

Professor Craig Deegan B Com M Com (Hons) PhD FCA, Professor of Accounting, University of Tasmania

Emeritus Professor James Guthrie Member of the Order (AM), FCPA, Macquarie University, Joint Founding Editor, *Accounting, Auditing and Accountability Journal*, Founding member of the Centre for Social and Environmental Accounting Research

Professor Sumit Lodhia MA PhD CPA CA, Professor of Accounting, University of South Australia and Joint Editor, *Accounting Forum*

Professor Nick McGuigan PhD FCPA CA, Professor of Accounting, Monash University, Australia and Editor, *Issues in Accounting Education*

Dr Leanne Morrison CPA, Discipline Lead, Accounting, Tasmanian School of Business & Economics, University of Tasmania.

Professor Lee D Parker PhD M.Phil B.Ec. FCA FCPA, Research Professor in Accounting, University of Glasgow, Scotland, and Editor, *Accounting Auditing & Accountability Journal*

Professor Carol Tilt MAcc PhD FCPA Professor of Accounting, University of South Australia Business School and Joint Editor, *Accounting Forum*

References to work by Australian accounting academics supporting this submission

Abhayawansa, S, Adams, CA and Neesham, C (2021) Accountability and Governance in Pursuit of Sustainable Development Goals: Conceptualising how governments create value, *Accounting, Auditing and Accountability Journal* 34(4) 923-945 https://doi.org/10.1108/AAAJ-07-2020-4667

Adams CA and Mueller F (2022) Academics and policymakers at odds: the case of the IFRS Foundation Trustees' consultation paper on sustainability reporting, *Sustainability Accounting Management and Policy Journal* https://doi.org/10.1108/SAMPJ-10-2021-0436

Adams, S., Tweedie, D. and Muir, K. (2021), "Social impact reporting in the public interest: the case of accounting standardisation", Qualitative Research in Accounting & Management, Vol. 18 No. 3, pp. 390-416. https://doi.org/10.1108/QRAM-02-2019-0026

Arora, M, Lodhia, S and Stone, G (2022) "Preparers' perceptions of integrated reporting: A global study of integrated reporting adopters" *Accounting and Finance* 62 (2) 1381-1420 https://doi.org/10.1111/acfi.12827

Deegan, C (2023) *Financial Accounting Theory*, Cengage, Melbourne

Deegan, C. (2013), 'The accountant will have a central role in saving the planet … really? A reflection on "Green accounting and green eyeshades twenty years later"', *Critical Perspectives on Accounting*, 24(6), pp. 448–58

https://www.sciencedirect.com/science/article/pii/S1045235413000567?via%3Dihub