

Corporations Branch
Market Conduct Division
Treasury
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16 December 2022

Dear Treasury,

Consultation submission - Empowering the AASB to deliver sustainability standards

Thank you for the opportunity to participate in the consultation on the draft *Treasury Laws Amendment (Measures for Consultation) Bill 2022: sustainability standards*.

BDO's sustainability practice (**BDO**) consults to a variety of Australian entities - state government, not-for-profit, exchange-listed and unlisted, with Australian and foreign assets, projects, and services. Through this experience, BDO has developed a deep understanding of corporate engagement with sustainability and environmental, social, and governance (ESG) matters. We have also met or presented to several regulatory and industry bodies on the topic.

The sustainability services we provide nationally and globally include (but are not limited to):

- Sustainability and ESG management and reporting
- Sustainability and ESG assurance
- GHG emissions calculations, footprint
- Sustainability and ESG due diligence
- Sustainability and ESG strategy
- Sustainable cities advisory
- ESG remuneration advisory.

These services are provided by a team comprising a global sustainability specialist, Greenhouse Energy Auditors (category 3), remuneration specialists, governance/regulatory specialists, environmental engineers, carbon accountants, NGER/NPI reporting specialists, environment, and finance managers, IFRS experts, and other financial and non-financial reporting standards specialists. It is this rich specialist knowledge that allows us to understand the pressures of climate on the economy, its participants, government bodies, and the corporate appetite for the adoption of sustainability and climate-related governance, strategy, risk management, metrics, and targets.

BDO strongly supports the Government in moving towards the eventual transition of Australia to a mandatory sustainability and climate reporting framework. With a working knowledge of many

sustainability frameworks (e.g. GRI, WEF-IBC, SASB, TCFD) we support the transition to ISSB (modified) due to its greater transparency, accountability, and comparability principles which are currently in place with the Australian financial reporting regime.

The following comments arise from our working knowledge of current global and Australian climate change and sustainability management and assurance within Australia.

BDO comments

New law	BDO commentary
<p>AASB may make sustainability standards</p>	<p>We support the amendments proposed.</p> <p>The data required to assess, manage, report against sustainability metrics and targets, and monitor an entity’s performance against sustainability risks and opportunities are significantly different from the financial information gathered to prepare general purpose accounts.</p> <p>It is not until an entity conducts an assessment against sustainability metrics (step 1) that it can determine enterprise value, risks, and opportunities (step 2).</p> <p>The specialist competencies required for each step to provide a reasonable basis for time horizon statements under the ISSB are very different from those required to prepare financial statements. For this reason, we believe developing the sustainability standards should be in consultation with sustainability specialists. Nonetheless, the systems, processes, and need for comparability and disclosure guidance for financial and sustainability reporting are required to ensure verifiable, transparent, and comparable reporting.</p> <p>Currently, without such guidance, entities are relying on various existing frameworks and are presenting data and information in a way that limits reader comparability. Many focus on a marketing style of presentation rather than relying on the Australian corporate disclosure principles of clear, concise, effective, and a reasonable basis.</p> <p>The introduction of an AASB sustainability standard/s formulated under an accounting framework, informed by sustainability knowledge and expertise, introduces a level of required certainty and reporting consistency. Current Treasury consultation on climate-related financial disclosure and the opportunity for application and/or adoption by other authorities will allow for further format standardisation.</p> <p>Mirroring the international structure, future consideration should also be given to developing an independent sustainability standards board tasked with working in conjunction with the AASB to develop the standards and guidance required in Australia for holistic financial and sustainability reporting.</p>

	Modification to the extent necessary to take account of the Australian legal, institutional environment, and entity type is supported.
AUASB may make auditing and assurance standards for sustainability purposes	<p>We support the amendments proposed.</p> <p>With the introduction of sustainability standards and the growing responsibilities of the Clean Energy Regulator to oversee and manage NGER, Safeguard, and the emerging CERT (Corporate Emissions Reduction Transparency Report), providing assurance standards across sustainability will introduce an important independent safeguard across sustainability disclosures and support entities with efficiencies, clarity, transparency and a reasonable basis for statements made.</p> <p>BDO is of the view that this will support reliable and verifiable disclosures during transition and beyond.</p>
The FRC has oversight of the process of developing sustainability standards, in addition to accounting standards and auditing standards	<p>We support the amendments proposed and draw attention to the need for engagement of sustainability and climate expertise.</p> <p>The proposed amendment to the functions of the FRC will provide a level of independent review, accountability, and oversight.</p> <p>As noted under BDO’s first comment above, the competencies required to gather and assess the necessary data to report against a sustainability framework vary significantly from those required for financial accounting.</p> <p>Although a matter for government, the appointment to the FRC of a member with significant expertise in the elements relative to sustainability and climate i.e. governance, strategy, risk management, metrics, and targets, or the engagement by the FRC, AASB and AUASB of this expertise is thought to be necessary to ensure appropriate recognition of the importance of sustainability and climate matters as well as informed oversight.</p>

We would be pleased to discuss and elaborate on our comments with either you or other members of the team.

If you wish to do so, our contact details are below.

Yours faithfully,

NATIONAL LEADERS, ESG & SUSTAINABILITY



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