

Submission – Empowering the AASB to deliver sustainability standards

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The Investor Group on Climate Change (**IGCC**) welcomes Treasury's [consultation](#) on the *Treasury Laws Amendment (Measures for Consultation) Bill 2022: sustainability standards* (Proposed Amendments) which seeks to amend parts of the *Australian Securities and Investment Commission Act 2001* that will empower the Australian Accounting Standards Board (AASB) to deliver sustainability standards.

The Proposed Amendments define 'international sustainability standards' as sustainability standards made by (a) the International Sustainability Standards Board (ISSB) or (b) another body specified by the regulations, and includes a note that these standards may relate to climate.

Institutional investors support the Government commitment to ensuring large businesses provide Australians and investors with greater transparency and accountability when it comes to their climate related plans, financial risks, and opportunities. Effective disclosure is important to both accurately price assets and manage risks and opportunities associated with climate change and to support the efficient allocation of capital towards a climate-resilient, net zero emissions economy.

Implementing and building on the ISSB baseline standards to achieve globally consistent, comparable and decision-useful public disclosure of climate-related financial risks and opportunities is a critical priority for investors. The ISSB plans to finalise its first international sustainability standard focused on disclosure of climate risk in early 2023.

The Proposed Amendments to empower the AASB to develop and formulate sustainability standards is an important interim step to allow timely adoption of international sustainability standards developed by the ISSB. Further steps will be needed to ensure appropriate governance arrangements are in place, including sufficient resourcing and member qualifications for issuing and supporting new sustainability standards, and appropriate consultation measures.

About IGCC

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over \$3 trillion in Australia and New Zealand and \$30 trillion around the world.

As the long-term custodians of trillions of dollars in retirement funds, investors have a fiduciary duty to deliver long-term returns for their beneficiaries. Unless climate change is addressed in an orderly and just way, the long-term retirement savings of millions of Australians are under threat.

About the Exposure Draft Legislation

The Proposed Amendments provide the AASB with functions to develop and formulate sustainability standards. The bill clarifies the Auditing and Assurance Standards Board's (AUASB) function to develop and maintain relevant assurance standards for sustainability purposes. It also empowers the Financial Reporting Council (FRC) to provide strategic oversight and governance functions in relation to the AASB's and AUASB's sustainability standards functions.

The explanatory memorandum to the Proposed Amendments states that "[t]his measure leverages the existing bodies' experience to facilitate the development of sustainability standards while longer-term governance arrangements for sustainability-related financial reporting, including climate disclosure, are developed and implemented".¹

Ensuring appropriate AASB member qualifications and resourcing for new standards

Navigating the multi-faceted nature of climate and sustainability risks and opportunity requires knowledge and experience of the underlying drivers and solutions.

It will be important to ensure that AASB is sufficiently resourced and that members have the appropriate balance of qualifications to effectively issue and support sustainability standards.

The Proposed Amendments extend suitable qualifications for AASB members to include knowledge or experience in science, sustainability and climate change in addition to business, accounting, law and government. However, they do not specify that the AASB *must* include members with appropriate skill sets to implement sustainability standards.

Governance arrangements for implementing sustainability standards should reflect the need to include members with appropriate experience to deliver sustainability standards, and ensure sufficient resourcing including for developing supporting guidance.

For example on climate change, member appointments should support a balance of expertise and experience of climate-related threats and opportunities, including climate science, net zero carbon transitions across the economy, public policy, investment, technology and innovation skills, experience in

¹ Para 1.7.

dealing with strategic disruptions, and adaptation and resilience to physical risks.² While the initial emphasis is on climate-related disclosure, sustainability expertise will importantly need to cover a broader range of issues including nature, human rights, First Nations Peoples' rights, governance and business conduct.

Drawing on recent analysis on investor expectations for board governance structures³, specific measures relevant to selection of AASB members (or related separate sustainability standards board) may include:

- Developing a skills matrix and process of assessing member knowledge and experience on climate-related and sustainability issues
- Independent assessment or audit of member qualifications
- Outlining the criteria used to assess each skill or background in the skills matrix
- Differentiation between members with significant expertise or experience of a particular skill, versus knowledge or awareness in a particular area. This applies not only to climate change-related skills but all skills identified in the skills matrix
- A plan outlining how necessary climate change- and sustainability-related knowledge and experience will be brought onto the AASB or related body.

Establishing a robust assurance framework to ensure investors and other stakeholders can rely on the integrity of information provided, similar to audited financial statements, is an important priority for investors. Accordingly, the AUASB will need to be sufficiently equipped to execute its function to develop and maintain relevant assurance standards for sustainability purposes.

Supporting implementation

Investors support disclosure requirements which build on the ISSB standards to ensure comparability with major markets expanding beyond the global baseline, and which encourage better practice, not just in the compliance expectations in the standards themselves but through supporting information provided in guidance.

IGCC recognised the role that the AASB has played in informing and setting expectations for how entities assess climate-related and other emerging risks disclosure through the AASB guidance on using AASB/IASB Practice Statement 2.⁴ The AASB guidance responded to investors identifying climate-related risks as being used in their decision making, but not being adequately addressed in annual reports, noting that existing and potential investors, creditors, insurers and customers are increasingly demanding more specific information about an entity's exposure to, and management of, climate related risks.

Going forward, it will be essential that the AASB or related body is sufficiently resourced to support the application of new sustainability standards, for which practice will evolve more rapidly than previously issued IFRS accounting standards.

² Investors expect government governance structures to be aligned with capital market expectations. See IGCC, [A changing climate: What investors expect of company directors on climate risk \(October 2021\)](#).

³ [IGCC, A Changing climate: What investors expect of company directors on climate risk \(October 2021\)](#).

⁴ [AASB, Climate-related and other emerging risks disclosures: Assessing financial statement materiality using AASB Practice Statement 2 \(2019\)](#).

Consultation arrangements

The Proposed Amendments provide that the AASB *may* distribute a draft international sustainability standard for consultation, whether or not modified, however there is no obligation to do so.

Under existing legislation and the proposed amendments, the FRC is responsible for monitoring the effectiveness of the consultative arrangements used by the AASB and the AUASB.

IGCC encourages sufficient consultation on the new sustainability standards, given significant demand and interest from investors and other stakeholders in ensuring the standards achieve their proposed objectives and are fit for purpose in Australia. In addition to the [AASB consultation](#) on draft ISSB Standards in April 2022, further consultation will be important to ensure stakeholder input on any modifications to the standards for the Australian context. This is recognising both that there are specific areas that may need to be modified for the Australian context and that the ISSB standards are intended to provide a global baseline from which individual countries are encouraged to build on.

We welcome the opportunity to discuss these matters further, including the longer-term governance arrangements anticipated in explanatory material for the Proposed Amendments and separate [consultation](#) on climate-related financial disclosure. For further information and to discuss, please contact:

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