

# Submission: Empowering the AASB to deliver sustainability standards

16 December 2022

## Overview

The Responsible Investment Association Australasia (RIAA) thanks Treasury for the opportunity to comment on the proposal to empower the Australian Accounting Standards Board (AASB) to deliver sustainability standards under the Treasury Laws Amendment (Measures for Consultation) Bill 2022: sustainability standards ('Exposure Draft').

RIAA welcomes the Exposure Draft as an early first step towards an Australian sustainability disclosure regime. We note that Treasury is currently undertaking broader consultation on a new climate-related financial disclosure regime. We will provide more detailed comments to that review, including on the regulatory framework and assurance requirements.

RIAA has strongly supported a mandatory sustainability reporting regime for Australia.<sup>1</sup> Current work provides an opportunity for Australia to establish a world-leading regulatory environment which is clear, fit-for-purpose, future-proof and gives investors the information and insights they need to make sound decisions.

Many of Australia's global partners are mandating sustainability disclosures, including the EU, UK, US, NZ and others. Without equivalent mandatory standards, Australian markets will increasingly lag behind the rest of the world. This is essentially because investors will continue to struggle to obtain high-quality, consistent corporate disclosures.

Australian sustainability disclosure standards, provided they are harmonised with global developments, could play a key part in revitalising Australian markets. They could do so by providing deeper understanding and certainty to investors, in turn attracting domestic and international capital. Clear mandatory disclosure and overarching regulation will be critical in supporting the competitiveness of key Australian industries into the future.

RIAA's view is that empowering the relevant Australian Government agencies to make voluntary disclosure and audit/assurance standards would be a start down a much-needed path towards mandatory sustainability disclosures. This initial reform can provide some clarity and direction for companies, investors and other stakeholders. It also sends a strong signal that Australia is joining the growing number of countries that acknowledge the significance of accurate and useable sustainability information in markets.

However, in RIAA's view the proposal in the Exposure Draft should only be an interim measure, and should be strengthened to ensure that appropriate expertise and governance are in place. This reform, and any other regulatory changes, should work towards ensuring that Australia has a sustainability disclosures regime which will:

- Significantly improve the extent, accuracy and comparability of sustainability-related information in our markets. This will help investors, fund managers, advisers and others to compare information equitably across companies.

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<sup>1</sup> See for example RIAA [Policy Platform: Sustainable finance for a thriving Australia 2022](#), June 2022 and RIAA [Submission: AASB ED 321: Comment on ISSB Draft Standards – S1 General Requirements for Disclosure of Sustainability-related and Financial Information and S2 Climate-related Disclosures](#), 15 July 2022

- Motivate companies to better understand, measure, manage and communicate their sustainability-related risks, opportunities and impacts. The processes and requirements of preparing disclosures can potentially lead to better long-term performance and investor confidence, and reduce the risks of shock events (such as the destruction of Juukan Gorge sacred Indigenous sites), which have lasting impacts on society, the environment and company valuations.
- Better enable investors and other stakeholders to gauge the risks and value of companies, and to make informed decisions. This should reduce the risk of greenwashing and make it easier to assess and compare companies. This should also put those companies doing the right thing at an advantage.
- Align Australian reporting practices with international reporting frameworks, ideally through a 'building blocks' approach. Given global companies will need to report in multiple jurisdictions, a consistent set of reporting guidelines along international standards will reduce red tape for businesses and drive shareholder value.
- Enhance and highlight company and investor efforts towards improving real-world sustainability outcomes, which is an increasing focus.
- Ensure that Australian markets are stronger and more transparent, making them attractive and viable for both local and international investors into the future.
- Provide insights for Governments and investors on potential areas of systemic risks in markets or sectors, and the macroeconomic implications of those risks.

RIAA's views and recommendations on the proposals in the Exposure Draft are outlined below. RIAA's detailed comments on mandatory climate disclosures will be contained in our submission to Treasury's parallel consultation.

## Recommendations

1. Empowering the AASB to make sustainability disclosure standards should be an interim step. The Government should consider eventually housing sustainability standards within a separate governance body that is empowered and appropriately resourced to implement sustainability standards.
2. The AASB should be required to publicly consult on draft standards and to publicly report on how it considered submissions.
3. In addition to considering developments of the ISSB, the AASB should look to other key international initiatives when developing Australian sustainability standards.
4. Differences between standards for different types of entities should be minimised to ensure disclosures are consistent.
5. The Explanatory Memorandum should clarify that the framework for making sustainability standards should be complied with to the greatest extent possible.
6. The Act or Explanatory memorandum should clarify that 'sustainability' expertise covers a broad range of topics. This should ensure the AASB, AUASB and FRC can build a strong foundation for standards.
7. The AASB, AUASB and FRC should put in place a skills matrix and other measures to ensure board sustainability competence.
8. The AASB, AUASB and FRC should more broadly build sustainability expertise and experience.

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## About RIAA and our members

RIAA champions responsible investing and a sustainable financial system in Australia and Aotearoa New Zealand and is dedicated to ensuring capital is aligned with achieving a healthy society, environment, and economy.

With more than 500 members managing more than USD29 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and Aotearoa New Zealand. RIAA's membership includes superannuation funds, KiwiSaver default providers, fund managers, banks, consultants, researchers, brokers, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups, and others involved in the finance industry, across the full value chain of institutional to retail investors. RIAA membership represents 58% (AUD2.09 trillion) of all professionally managed funds in Australia.

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## Role of the AASB

RIAA broadly supports an extension of the AASB's role to enable the AASB to:

- formulate sustainability standards, including by issuing international standards,
- contribute to the development of international standards, and consult on international standards,
- develop conceptual frameworks for evaluating sustainability standards, and
- modify an international standard so that it is appropriate to Australia.

RIAA supports this proposal as a relatively quick and necessary step to enable Australia to set the path towards a mandatory reporting regime. We note that reporting under any AASB sustainability standards will not be mandated under this proposal, as that is a matter for the parallel consultation on climate disclosures that is currently underway. In our view, several changes to the current proposal would strengthen the proposed new role of the AASB.

### Separate, well-resourced governance body

The current proposal is unlikely to be the best long-term governance structure for Australian sustainability standards. Governance arrangements should be appropriate to the respective standards and reflect the prevailing international approach.

RIAA will provide our views on the three governance models proposed in the current consultation on climate disclosures. Our initial view is that the Government should look to the obvious example of the ISSB being established as a separate body to the International Accounting Standards Board (IASB), and housed within the International Financial Reporting Standards (IFRS) Foundation. In the longer-term, Australia's regulatory structure should be flexible enough to incorporate a wide array of sustainability standards, and to support integrated reporting practices, which are increasingly common in some overseas markets.

The governance body should also be adequately resourced for the tasks required to develop and implement sustainability standards. We support the Investor Group on Climate Change (IGCC) recommendation to this consultation that the body be adequately resourced to provide guidance to companies. For example, the governance body should provide guidance on issues which are 'material', depending on the industry or region. Effective guidance of this type from the governance body could significantly improve the relevance of disclosures for investors and others.

### Strong public consultation requirements

Given the complexities and array of expertise required to prepare and use sustainability disclosures, there should be meaningful stakeholder input into the development of standards.

The AASB should be required under section 227 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) to undertake public consultation on all draft standards that it proposes to formulate. This should involve industry, civil society and academic experts in sustainability areas such as climate science, biodiversity, and human rights impacts. It should also publicly report on how it considered submissions, in a similar manner to the ASIC 'response to submission' reports that are issued when ASIC consults on regulatory actions or guidance.

### Broader consideration of international developments

Ongoing international engagement on sustainability disclosure standards by the AASB and members of the Council of Financial Regulators will support the Australian Government's broader engagements with the G20, International Platform on Sustainable Finance and other key global initiatives. Strong alignment with the ISSB as a baseline should protect the integrity and consistency of Australian standards into the future. In addition to the ISSB, the key initiatives with which the AASB should engage with include:

- The Taskforce on Climate-related Financial Disclosures (TCFD), given international best practices are reasonably mature and could assist Australian companies.
- The Taskforce on Nature-related Financial Disclosures (TNFD), currently at the beta stage of development.
- The Global Reporting Initiative (GRI), which has a Memorandum of Understanding with the ISSB but which retains its own well-established and substantively different reporting standards.
- Developments with our key trade partners and neighbouring regions, including the EU, UK, US, China, NZ and others.

**Recommendation 1:** Empowering the AASB to make sustainability disclosure standards should be an interim step. The Government should consider eventually housing sustainability standards within a separate governance body that is empowered and appropriately resourced to implement sustainability standards.

**Recommendation 2:** The AASB should be required to publicly consult on draft standards and to publicly report on how it considered submissions.

**Recommendation 3:** In addition to considering developments of the ISSB, the AASB should look to other key international initiatives when developing Australian sustainability standards.

## Framework for making sustainability standards

RIAA broadly supports the proposals in the Exposure Draft to:

- extend the framework for making accounting standards to sustainability standards,
- require the AASB to have regard to the suitability of a proposed standard for different types of entities,
- empower the AASB to apply different sustainability requirements to different types of entities.

To ensure this framework results in the development of robust sustainability standards:

- The AASB should strive for common, consistent sustainability standards, supported by sector-specific guidance, as much as possible.
- Any differences between sustainability standards for different types of entities should be minimised, carefully tailored, and used in a transitional manner to the greatest extent possible, to promote the value of consistent standards for investors and other users of disclosures. This is particularly important where companies are reporting under multiple jurisdictions or standards, or where investors are preparing disclosures and have holdings with an array of different types of entities and assets.
- The following qualification in proposed new section 234 of the ASIC Act should be clarified:

*'A failure to comply with the framework for making or formulating standards does not affect the validity of the standard. This applies to both sustainability standards and accounting standards.'* (Explanatory Memorandum, paragraph 1.23)

The Explanatory Memorandum should state that the framework for making standards should be complied with to the greatest extent possible, including by undertaking consultation with stakeholders such as investors. There are many models for consultation that could be considered, for example, the UK Financial Conduct Authority recently appointed an ESG Advisory Committee to guide and support its Board.<sup>2</sup> Robust, transparent and inclusive processes are critical to ensuring practical standards which have broad understanding and support among companies, investors and others.

**Recommendation 4:** Differences between standards for different types of entities should be minimised to ensure disclosures are consistent.

**Recommendation 5:** The Explanatory Memorandum should clarify that the framework for making sustainability standards should be complied with to the greatest extent possible.

## Administration of the AASB

RIAA supports the proposal to require AASB meetings which are about the content of a sustainability standard (in whole or part) to be held in public. Transparent process will be important for standards to be widely supported, well-understood and suitable for the Australian market. Public meetings are an important part of ensuring standards are developed in a clear and accountable way.

<sup>2</sup> Financial Conduct Authority, [FCA announces ESG Advisory Committee to its Board](#), 13 December 2022.

We also support the proposal to expand the qualification requirements for membership of the AASB to include a person with knowledge or experience in ‘science, sustainability or climate change’. Ensuring suitable experience and expertise in the membership of the AASB is obviously a key part of developing appropriate standards.

However, the current proposal could be improved with two key changes.

### Clarify ‘sustainability’ expertise

It should be very clear that expertise in, and knowledge of, ‘sustainability’ includes sustainability topics beyond climate change. Sustainability encompasses broader nature-related issues, human rights, including First Nations Peoples’ rights, as well as governance and business conduct. People with broader sustainability expertise are increasingly being brought into investor decision-making, for example, to address modern slavery and other human rights risks within investee companies. This development within industry should be reflected within the standards-making body.

Clarifying the meaning of ‘sustainability’ in line with international norms – whether in the Act or Explanatory Memorandum – would help to ensure that there is appropriate diversity in AASB expertise. It would also align Australia’s standards-making body with the international direction of standards. For example, the EU recently made Sustainability Reporting Standards for reporting under the Corporate Sustainability Reporting Directive, which apply to some companies from 1 January 2024. The EU reporting standards cover topics such as pollution, resource use, circular economy, workforce, affected communities, and consumers/end-user. The ISSB has signalled that it may use a similar approach. The Australian standards-setting body should reflect global trends, incorporate broad sustainability expertise and be able to evolve to address emerging sustainability issues over time.

Some key international definitions that should be considered when defining ‘sustainability’ include:

- ISSB (current draft definition, subject to change, which is expected to emerge as a global baseline):  
*‘Sustainability-related financial information is broader than information reported in the financial statements and could include information about:*  
...  
*(c) the entity’s reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them...’<sup>3</sup>*
- European Commission:  
*‘Sustainable finance generally refers to the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.’<sup>4</sup>*
- Global Reporting Initiative:  
*‘Sustainability reporting, as promoted by the GRI Standards, is an organization’s practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development.*  
...  
**sustainable development/sustainability:** *development that meets the needs of the present without compromising the ability of future generations to meet their own needs.’<sup>5</sup>*

Acknowledging the wide scope of the standards task facing Australia now will ensure that the standards-setting body can make appropriate standards into the future. For example, broad sustainability expertise will be required if the AASB chooses to adopt or adapt a standard based on the ISSB’s *Draft S1 General Requirements for Disclosure of Sustainability-related Financial Information*. This type of general standard must be suited to a broad range of disclosure topics, so will need to be developed by people with diverse expertise and knowledge.

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<sup>3</sup> IFRS Foundation/ISSB, [\[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#), March 2022, paragraph 6.

<sup>4</sup> European Commission, [Overview of sustainable finance](#).

<sup>5</sup> Global Sustainability Standards Board, [Standard GRI 101: Foundation](#), 2016, Section A and Key Terms.

## Sufficient 'sustainability' expertise

The AASB should be required to have an appropriate level of expertise to make sustainability-related standards. This includes ensuring an appropriate number of qualified experts, through targeted new appointments and maintenance of a board skills matrix. Appropriate expertise and experience is also needed across the AASB, not just at the Board level.

RIAA supports the IGCC recommendation to this consultation that specific measures be put in place that reflect investor expectations of climate-competent boards.<sup>6</sup> We would extend this to broader sustainability expertise and competence.

**Recommendation 6:** The Act or Explanatory memorandum should clarify that 'sustainability' expertise covers a broad range of topics. This should ensure the standards-setting body can build a strong foundation for standards.

**Recommendation 7:** The AASB should put in place a skills matrix and other measures to ensure board sustainability competence.

**Recommendation 8:** The AASB should more broadly build sustainability expertise and experience.

## The role of the AUASB

RIAA similarly supports the expanded role of the AUASB to make audit and assurance standards for sustainability purposes, and the inclusion of persons with knowledge or experience in 'science, sustainability or climate change' within the AUASB.

### Audit and assurance standards

Strong audit and assurance standards are an essential foundation to robust sustainability disclosures. Audit and assurance of sustainability disclosures provide important 'checks and balances' by suitably qualified experts, and the assurance process is key to the credibility of the disclosures regime. This is important to investors, who make significant long-term decisions on behalf of clients and fund members partly based on information within sustainability disclosures.

The assurance of sustainability disclosures is becoming critical within Australian markets, but also for Australian companies operating overseas. For example, the EU will soon introduce its Carbon Border Adjustment Mechanism, to apply tariffs on imports of some carbon-intensive products such as iron, aluminium and electricity.<sup>7</sup> This means Australians exporting to the EU must clearly state the greenhouse gases embodied in their products. This will be simpler if robust assurance is in place from appropriately skilled and accredited auditors.

Audit and assurance of sustainability disclosures is a nascent and fast-growing area of professional practice. The AUASB is well-placed to ensure that sustainability audit and assurance standards can set practices in Australia that are robust, internationally aligned and leverage existing financial auditing standards.

The AUASB should develop standards in collaboration with auditors, investors, regulators, educational institutions and others. This will help to ensure that auditors have the appropriate professional capabilities to support a strong sustainability disclosures regime.

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<sup>6</sup> See IGCC submission to this consultation and [IGCC, A Changing climate: What investors expect of company directors on climate risk \(October 2021\)](#).

<sup>7</sup> European Parliament, [Press release: Deal reached on new carbon leakage instrument to raise global climate ambition](#), 13 December 2022.



## **Sufficient 'sustainability' expertise**

RIAA's comments on the meaning of 'sustainability' expertise and the need to have adequate representation, expertise and experience within the AASB apply equally to the proposal for the AUASB.

## **The role of the FRC**

RIAA similarly supports the expansion of the FRC's oversight and governance powers to cover the development of sustainability standards. Close oversight by suitably qualified experts will be a critical underpinning for standards to be fit-for-purpose and widely accepted.

RIAA's comments on the meaning of 'sustainability' expertise on the AASB and AUASB, and the need to have adequate representation, expertise and experience within the AASB and AUAAB also apply the proposed changes to the FRC. As the body providing high-level oversight and direction for sustainability standards, the FRC must now start to reflect the breadth of sustainability expertise. This should ensure that the FRC has strong foundations to direct the development of robust, suitable sustainability disclosure standards.