

16 December 2022

Corporations Branch
Market Conduct Division
Treasury

By email: climatereportingconsultation@treasury.gov.au

Dear Sir/Madam

TREASURY LAWS AMENDMENT (MEASURES FOR CONSULTATION) BILL 2022: SUSTAINABILITY STANDARDS

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission related to *Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards*.

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include 26 Australian and international asset owners and institutional investors with over \$1 trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage. ACSI members can achieve financial outcomes for their beneficiaries through genuine and permanent improvements to the environment, social and governance (ESG) practices of the companies in which they invest.

ACSI position

ACSI welcomes Treasury's consultation on the *Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards* (the Proposed Amendments). The Proposed Amendments aim to empower the Australian Accounting Standards Board (AASB) to create sustainability standards, allow the Australian Auditing and Assurance Standards Board (AUASB) to develop auditing and assurance standards for sustainability purposes, and provide the Financial Reporting Council (FRC) with strategic oversight of these new standards.

ACSI members are some of the largest investors in Australia. They recognise that:

- **ESG performance is financially material for long-term investors.** However, the short-term outlook of many in the investment system means that present market prices do not always capture these risks and opportunities.
- **Markets do not always operate in the interest of long-term investors and their beneficiaries.** Fiduciary investors have an opportunity and a responsibility to engage with policy makers to better align the operation of the financial system with the interest of the beneficiaries.

As long-term investors, ACSI members need information on their investee companies' sustainability risks and opportunities, and their approach to managing these risks and opportunities, including the relevant performance metrics. Such information is used by investors in risk assessment, stewardship activity and investment decisions. Given ACSI members invest across global markets, there is a strong appetite for consistency and comparability in the approach to disclosure.

ACSI notes that the new standards are proposed to largely align with the International Sustainability Standards Board (ISSB) sustainability standards currently in development. We support the introduction of sustainability standards based on the ISSB Sustainability Standards. ACSI has previously recommended the adoption of the

In addition to our support for the Proposed Amendments, ACSI recommends that:

- There is stronger provision for appropriate resourcing of, and expertise required within, the AASB, AUASB and the FRC. The new standards will require input from experts in a range of sustainability matters, and expertise at a Board level to oversee developments.
- There is integration between financial and sustainability standards, given that sustainability risks are ultimately financial in nature.
- There is transparency in the consultation process guiding the development of the new sustainability standards.

Appropriate resourcing and expertise

We note that the Proposed Amendments expand the qualification requirements for member appointments to the AASB and AUASB to include knowledge of, or qualifications in, 'science, sustainability or climate change.' Potential members would have expertise or experience in business, accounting, law, government, science, sustainability or climate change. We support the extension of qualifications to acknowledge that different areas of expertise will be required to manage the development of sustainability standards.

There is, however, no such requirement for FRC member appointments. The development of Australian sustainability standards will require expertise beyond the traditional focus on finance, auditing, accounting and assurance. It is important that each of the AASB, AUASB and FRC boards have sufficient expertise in sustainability to undertake the development of the new standards. We therefore recommend that the qualification requirements for FRC members should also be expanded to include knowledge or qualifications in, 'science, sustainability or climate change'.

Further, sustainability covers a number of areas of expertise – for example a candidate may have expertise in climate change, but not human rights. It will also therefore be important that there is a sufficient number of members in each organisation that have experience in relevant disciplines to oversee developments. Consequently, ACSI recommends that the appointments be made to the AASB, AUASB, and FRC boards such that a sufficient proportion of board members in the AASB, AUASB and FRC have relevant knowledge about sustainability matters. Focus should be on achieving the right mix of skills and experience that includes climate change matters, along with other sustainability matters. Science, climate-change and sustainability represent different areas of expertise and while related, are not interchangeable, and, as outlined above, sustainability covers a number of areas of expertise. As sustainability standards are developed beyond climate related reporting, different areas of sustainability expertise will be required, including considering human rights and nature-based risks and opportunities.

ACSI also notes that the Proposed Amendments will involve a significant expansion related to the Australian Financial Reporting System. It will be important to ensure that the AASB and the AUASB are sufficiently resourced to undertake such a project.

An alternative approach to giving existing entities responsibility for the development of sustainability standards would be the creation of a new sustainability standards board. This would replicate the approach taken by the IFRS when it created the ISSB. While there are arguments both for and against the creation of a separate board, as the Proposed Amendments reflect a different approach to that taken by the IFRS, it would be appropriate for the Government to provide the rationale for choosing one structure (AASB and AUASB hold responsibility for development of sustainability standards) over another (creation of new sustainability standards board).

Integration between financial and sustainability standards

The Proposed Amendments effectively represent an expansion of the Australian Financial Reporting System to include new sustainability standards.² A key consideration of this work will be to ensure integration between financial and sustainability standards, given that sustainability risks are ultimately financial in nature.

While this integration work has already started internationally and in Australia, further work is required to support internationally comparable, decision-useful and consistent information for investors³. Internationally,

¹ ACSI, July 2022, Submission to the IFRS Sustainability Disclosure Standards.

² Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards, Exposure Draft Explanatory Materials, [Explanatory material: Treasury Laws Amendment \(Measures for Consultation\) Bill 2022: sustainability standards](#)

³ For example, the 2022 ACSI report, [Promises, pathways & performance](#), found that in FY21 29 companies in the ASX200 publicly disclosed that they were using a shadow carbon price in their financial decision-making

the ISSB's agenda for future priorities includes work on ensuring that an appropriate connection is made between financial and sustainability reporting in the management commentary of company disclosures.⁴ In Australia, the AASB/IASB's 2018 document, *Climate-related and other emerging risks disclosures: Assessing financial statement materiality using AASB Practice Statement 2* provides guidance on assessing climate-related and other emerging risks disclosures.

Transparent consultation process.

We note that the Proposed Amendments state that the AASB 'may distribute a draft international sustainability standard for consultation'.⁵ ACSI strongly encourages transparent consultation on the development of draft Australian sustainability standards given the significant interest in these standards from the Australian investor community and other stakeholders. A transparent consultation process should aim to ensure that the final standards are robust and fit-for-purpose in an Australian environment. We recommend the AASB be required to consult.

I trust our comments are of assistance. Please contact me or Kate Griffiths, Executive Manger – Research and Policy (kgriffiths@acsi.org.au) or Brigid Richmond, Policy Analyst (brichmond@acsi.org.au) should you require any further information.

Yours faithfully



Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors

⁴ IFRS, July 2022, Staff paper: ISSB consultation on agenda priorities, [AP1: Project introduction and overview \(ifrs.org\)](#)

⁵ 1.20 in Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards, Exposure Draft Explanatory Materials, [Explanatory material: Treasury Laws Amendment \(Measures for Consultation\) Bill 2022: sustainability standards](#)