

1 September 2023

International Financial Reporting Standards (IFRS) Foundation
International Sustainability Standards Board (ISSB)
commentletters@ifrs.org

Dear Sir/Madam,

Consultation on Agenda Priorities

About ACSI

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

Through research, engagement, advocacy and voting recommendations, ACSI supports members in managing ESG investment risk and exercising active ownership to strengthen investment outcomes. Active ownership, including the management of climate related risk, allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage.

Summary of ACSI's position

ACSI welcomes the work of the ISSB, including the recently released IFRS S1 and S2 disclosure standards. Providing a global baseline for sustainability reporting standards is an important task and we support continued work of the ISSB.

Many of the projects outlined in the Agenda Priorities consultation paper fall within the 'foundational work' of the ISSB. Successful implementation of IFRS S1 and S2 are key priorities. While foundational work that supports widespread adoption should be prioritised, we encourage the ISSB to set out a clear and ambitious vision that articulates how the ISSB's standards can be expected to evolve to meet investor information needs and support global adoption. This is likely to involve a planning period greater than two years.

In addition, we suggest the ISSB could clarify its position on the application of the standards beyond the provision of information to capital markets, including, if applicable, the adjustments and guidance that would be required if standards were applied for purposes beyond the provision of information to capital markets.

Successful implementation of IFRS S1 and S2

Our view is that successful implementation of the IFRS S1 and S2 standards should be a priority for the ISSB in the short term. ACSI welcomes the ISSB's partnership with international jurisdictions and encourages the formation of a transition implementation group. ACSI supports the work set out in the Exposure Draft of the IFRS Sustainability Disclosure Taxonomy and its aim of assisting users in identifying digital information required by the disclosure standards. We also encourage the ISSB to release the comparison of the requirements between IFRS S1 and S2 to assist users of the standards in identifying the common elements of the standards.

Researching targeted enhancements to IFRS S1 and S2

We support the recently released IFRS S1 and S2 disclosure standards. We also encourage the ISSB to continue to research targeted enhancements to these standards. In particular, additional guidance surrounding climate-adjacent risks and opportunities would be helpful. The research into the relationship between climate and nature (including, for example, consideration of water and deforestation) should aim to assist users in

disclosing relevant climate-adjacent risks and opportunities and also to assist the ISSB in its future work on nature and biodiversity. Nature is a significant contributor to the Australian economy and nature-related risk poses a broad financial risk to companies through physical, transition and systemic risks.¹

ACSI also encourages the ISSB to research whether enhancements are required to support disclosure related to a 'just transition' to a lower-carbon economy. ACSI considers a just transition to be a vital component of transition planning. A mismanaged transition can represent a significant investment risk and can have ongoing implications for workers, communities and broader stakeholders that are impacted by the closure of fossil fuel operations.²

Given the significance of both these topics, we support the proposed targeted enhancements to IFRS S1 and S2 and encourage the ISSB to make this a priority in its 2-year work plan.

Further research and projects beyond the foundational work of the ISSB

Beyond the foundational projects outlined in the consultation paper, we encourage the ISSB to set out a clear and ambitious vision, that outlines the scope future disclosure standards are proposed to cover, along with timing expectations. The development of a comprehensive set of global sustainability standards has been widely welcomed, however market participants have relatively little insight into the resources and capacity of the ISSB to deliver these standards. The consultation paper does not outline potential activity beyond the relatively short planning period of two years which makes it difficult to understand the scope of the ISSB's vision and proposed work. This also makes it difficult to prioritise the proposals set out in the consultation paper, particularly given that they all have merit and many represent material risks facing investors globally. Our view is that the ISSB should clearly articulate its capacity, work plan and time frames, and that these should be ambitious and meet the information needs of investors. Anything less risks continued market fragmentation.

Some further comments on each of the proposed research projects are set out below for consideration.

Human Rights

Breaches of human rights present financially material risks to entities and there is increasing demand for greater transparency and reporting. The market currently lacks universal guidance as to how entities should identify and disclose their exposure to human rights risk. ACSI considers the sub-topics set out below to be a priority when considering research and standard setting projects.

- Engagement with First Nations peoples and communities: the impact of private entities on the wellbeing of First Nations peoples represents a significant investment risk along with the risk of irrevocable damage to the cultural heritage of First Nations peoples. Given these risks, we encourage the ISSB to build on the work of the UN (United Nations) Declaration on the Rights of Indigenous Peoples and provide further guidance as to how companies can effectively disclose key matters such as how they engage with First Nations communities. For more information on our expectations of Australian companies and their engagement, please see [our research report](#).
- Modern Slavery and forced labour: the issue of modern slavery is receiving growing recognition as reporting regimes are put in place, and more consumers are demanding greater transparency and improvement in the management of modern slavery risk. We encourage the ISSB to consider existing legislative standards such as the Modern Slavery Acts in the UK and Australia. The ISSB should also consider the [UN Guiding Principles on Business and Human Rights](#) in its work program. It would be useful for the ISSB to provide common global standards, which would allow companies and investors to further understand their exposure to the risks and how they can best manage and disclose them.
- Governance of human rights risks: the ISSB could consider conducting research and providing disclosure standards for entities' governance of human rights risks. These governance processes should identify, prevent, respond, assess and disclose adverse human rights impacts using:
 - Due diligence policies that show how an entity identifies and monitors their human rights risks.
 - Grievance mechanisms that allow complaints to be identified and addressed.
 - Remediation policies that respond to individuals and communities whose human rights are adversely impacted by the entity.
 - Evaluation policies to assess the effectiveness of the company's actions on a regular basis.³

¹ ACSI Biodiversity Research Report https://acsi.org.au/wp-content/uploads/2021/11/ACSI-Biodiversity-Research-Report.Nov21_Final.pdf

² ACSI Just Transition Research Report <https://acsi.org.au/wp-content/uploads/2022/12/Just-Transitions-Research-Paper.Dec22.pdf>

³ ACSI Governance Guidelines 2021 <https://acsi.org.au/wp-content/uploads/2022/09/2021-ACSI-Governance-Guidelines.Sep22.pdf>

Human Capital

Human Capital is receiving greater attention however universal reporting requirements and standards are lacking. In considering human capital, we recommend the prioritisation of:

- Diversity, equity and inclusion: ACSI has consistently advocated for greater gender diversity at the board and management levels of Australian listed companies. We are currently conducting research on diversity factors broader than gender and have identified a lack of guidance and standard setting. Research to identify whether a global reporting standard could better guide entities in their practices and disclosures would be helpful.
- Worker wellbeing (including mental health and benefits): Workforce safety remains a key risk and priority for investors. While the Australian regulatory environment has existing legislation surrounding workplace safety such as the recent Anti-Discrimination and Human Rights Legislation Amendment (Respect at Work) Act 2022⁴, research to identify the further guidance and standards on worker wellbeing (including mental health) for development would be useful.
- Decent and secure work across the value chain: A productive and satisfied workforce can have a significant impact on a company's performance. Providing work that is secure, with fair pay and decent conditions can be important determinative factors in employee satisfaction and productivity. However, there is no overarching framework that covers all elements of decent and secure work, so it would be useful for the ISSB to undertake research that assesses the need for such a framework and the pathway forward.

Biodiversity

The global economy is highly dependent on biodiversity and the risks are interconnected to other issues such as nature, human rights and climate change.⁵ Therefore, the risks associated with the loss of biodiversity are the subject of increasing investor attention.

The Task Force on Nature-related Financial Disclosures (TNFD) has made noteworthy progress on establishing a nature and biodiversity disclosure framework, which is expected to be released later this year. ACSI encourages the ISSB to incorporate the work of the TNFD into its approach to research in respect of nature related risk, (as it has done with the Taskforce on Climate-related Financial Disclosures). The TNFD has already been the subject of wide market consultation as part of its development, which should provide a solid basis for further work by the ISSB.

Enhancement of the Sustainability Accounting Standards Board standards

ACSI supports enhancing the international applicability of the SASB standards using the methods suggested by the ISSB in its recent consultation. Our view is that further guidance on how the SASB standards are proposed to interact with IFRS S1 and S2 (as well as any future standards) would be helpful to the market.

Integration in reporting

ACSI supports the work of the ISSB and the International Accounting Standards Board (IASB) to collaborate and support the cohesiveness of their respective standards. We support the incorporation of the IASB's Exposure Draft Management Commentary and the Integrated Reporting Framework into the work of the ISSB.

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



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Chief Executive Officer
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⁴ Anti-Discrimination and Human Rights Legislation Amendment (Respect at Work) Act 2022
https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r6916

⁵ ACSI Biodiversity Research Report https://acsi.org.au/wp-content/uploads/2021/11/ACSI-Biodiversity-Research-Report.Nov21_Final.pdf