

PRI RESPONSE

TREASURY'S CONSULTATION ON EMPOWERING THE AASB TO DELIVER SUSTAINABILITY STANDARDS

December 2022

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To inform this briefing, the following investor group has been consulted: PRI Regional Policy Reference Group for Australia. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to Treasury's call for feedback on its exposure draft of the *Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards*.

ABOUT THIS CONSULTATION

On 28 November 2022, Treasury released exposure draft [legislation](#) and [explanatory material](#) on sustainability standards (the Exposure Drafts) for feedback by 16 December 2022. This consultation precedes Treasury's separate but interrelated consultation on [implementing climate-related financial disclosures](#) (the Climate Disclosure Consultation).

The Exposure Drafts seek to amend parts of the *Australian Securities and Investment Commission Act 2001* (Cth) to empower the Australian Accounting Standards Board (the AASB) to formulate sustainability standards, including by issuing international sustainability standards made by the International Sustainability Standards Board (ISSB). The draft legislation would clarify the role of the Auditing and Assurance Standards Board (AUASB) extends to developing auditing and assurance standards for sustainability purposes. It would also empower the Financial Reporting Council (FRC) to provide strategic oversight and governance for the development of sustainability standards.

The proposed amendments are aimed at meeting the Australian Government's commitment to ensure large businesses provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities.

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KEY RECOMMENDATIONS

The PRI welcomes the Australian Government's intention to update the governance and functions of relevant standard setting bodies, to support the implementation of sustainability disclosure and assurance standards. The mandatory adoption of such standards will be necessary to ensure that large businesses are more transparent and accountable to investors for their climate-related plans, financial risks, and opportunities, as well as on broader sustainability issues. The PRI is working with its global network of signatories to advocate for meaningful and globally comparable sustainability disclosures by companies and encourages consolidation and harmonisation of reporting standards and regimes. Accordingly, we are supportive of the draft legislation in principle.

Investors need globally comparable mandatory corporate sustainability disclosures

The draft explanatory material suggests that the AASB will be empowered to establish non-binding reporting requirements at first instance, although the standards may become enforceable with subsequent legislative changes. We acknowledge that, through the Climate Disclosure Consultation, Treasury is seeking feedback on approaches to implement mandatory climate-related financial disclosures and welcome the opportunity to respond separately.

The quantity and quality of current voluntary sustainability disclosures by Australian companies is inadequate and does not provide investors with a sufficient view of the sustainability risks, opportunities, and performance of their investee companies and assets.¹ Indeed, investors regularly report to the PRI that the lack of decision-useful corporate sustainability data globally is a substantial barrier to their investment decision-making.²

This lack of robust and consistent sustainability-related information is a potential impediment to Australian investors' ability to mitigate system-level risks and thereby act in their beneficiaries' best interests long-term. It could also inhibit the flow of inbound foreign investments into Australia. International investors that are increasingly taking into account sustainability risks, opportunities, impacts and outcomes through the allocation of capital may be prevented or deterred from investing in Australian companies if those companies do not disclose sustainability information against minimum baseline standards.

Accordingly, the PRI has recommended that the Australian Government introduce legislation requiring disclosure of sustainability-related risks and sustainability performance and to empower the AASB to develop and implement reporting standards by 2024 that use international standards being developed by the International Sustainability Standards Board (ISSB) as a minimum baseline.³

The PRI strongly supports the ISSB's mission to deliver a high-quality global baseline of sustainability-related financial disclosures. This reflects investor demand for consistent and reliable

¹ CDP, IGCC & PRI (2021), [Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia](#) (p.4-5; p.25-30); ACSI (2022), [Climate reporting in ASX200 companies](#) (p.8).

² PRI (2020), [Driving Meaningful Data: Financial materiality, sustainability performance and sustainability outcomes](#).

³ PRI (2022), [A Legal Framework for Impact: Australia](#) (p.16-17); PRI (2022), [Response to AASB's consultation on the ISSB's exposure draft IFRS S1 and IFRS S2](#); IGCC, AIGCC, CDP, CERES, IIGCC, & PRI (2022), [Letter to the Treasurer, The Hon Jim Chalmers MP, and the RBA Governor, Philip Lowe](#).

sustainability information that enables them to fully understand related risks and opportunities, and to take investment and stewardship decisions aligned with their long-term investment goals.

Recommendations

- Noting that the relevant issues will more comprehensively be covered in the Climate Disclosures Consultation, the Australian Government should introduce a complementary bill to amend the *Corporations Act 2001* (Cth) to:
 - Commencing in 2024, explicitly require all Australian publicly listed, and large private companies to disclose sustainability-related information in their annual reports for the 2024-25 financial year in accordance with sustainability reporting standards; and
 - require sustainability-related information to be subject to assurance, in accordance with appropriate sustainability auditing and assurance standards.
- Any Australian standards should be based on the ISSB's final IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information and S2 Climate-Related Disclosure standards as a minimum baseline.⁴ Doing so will provide global financial markets with information on Australian companies' sustainability-related risks and opportunities in a manner that allows for comparability of data across jurisdictions;⁵

Empowering and resourcing the AASB and AUASB to implement sustainability standards

As part of the Climate Disclosure Consultation, Treasury has suggested three potential structures for the development and oversight of sustainability standards.⁶ The Exposure Drafts reflect the first option presented by Treasury to confirm the AASB as the entity responsible for developing, making, and monitoring climate and sustainability-related standards.

If Treasury were to proceed with this option, the draft legislation would enable the FRC to appoint individuals with experience in science, sustainability and/or climate change as members of both the AASB and AUASB. However, there is no requirement that the FRC *must* include members with appropriate skill sets relevant to sustainability reporting and assurance.

The PRI has recommended that the bodies responsible for formulating and implementing sustainability reporting standards in Australia should be both appropriately governed and resourced.⁷ To effectively implement sustainability reporting standards, the governing body should have adequate expertise on sustainability reporting from a reporting prepare and user perspective (including investors).

We note that the current members of the AASB and AUASB boards are predominately experts in finance, auditing, accounting, and assurance and there is limited transparency about their qualifications with respect to climate and other sustainability issues. Although this expertise is

⁴ PRI (2022), [A Legal Framework for Impact: Australia](#) (p.16).

⁵ PRI (2022), [Response to ISSB's consultation on exposure draft IFRS S1](#). PRI (2022), [Response to ISSB's consultation on exposure draft IFRS S2](#). IFAC, PRI, & WBCSD (2022), [Leading Financial Market Participants Call for Stronger Alignment of Regulatory and Standard Setting Efforts around Sustainability Disclosure](#).

⁶ Treasury (2022), [Climate-related financial disclosure: Consultation Paper](#) (p.17-20).

⁷ PRI (2022), [A Legal Framework for Impact: Australia](#) (p.17).

welcome, it would not be sufficient to appropriately oversee the implementation of sustainability reporting and assurance standards. To ensure that the AASB and AUASB are appropriately resourced to implement robust sustainability reporting and assurance standards, governance arrangements for the AASB and AUASB should better reflect the need to include members with appropriate sustainability expertise (including in areas such as science, climate change, biodiversity, water, pollution, human rights, and indigenous rights and heritage).

Recommendation

- If Treasury were to proceed with the option to empower the AASB and AUASB to implement sustainability standards, the current Exposure Drafts should be amended to ensure both entities are appropriately governed and resourced. This should include explicit direction regarding the appointment of individuals with appropriate sustainability or climate change expertise. In this respect, we have had the benefit of reviewing the draft submission to this consultation made by the Investor Group for Climate Change and endorse their recommendations for specific measures that may be taken to ensure there is an appropriate selection of qualified AASB and AUASB members.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of Treasury further to improve sustainability-related disclosures in Australia.

Please send any questions or comments to policy@unpri.org.

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