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Corporations Branch
Market Conduct Division
Treasury
Langton Crescent
Parkes ACT 2600

Email: climatereportingconsultation@treasury.gov.au

Re: Empowering the AASB to deliver sustainability standards

Thank you for the opportunity to provide our views on the above consultation.

I make this submission on behalf of my colleague, Dr Harjinder Singh and myself. Both of us are academics at Curtin University in Western Australia. Over the last 15 years, both of us has been teaching undergraduate, graduate and executive education courses on sustainability, environmental, social and governance (ESG) regulations & disclosures, reporting and assurance both nationally and internationally. Our key research areas are in ESG performance, measurement and reporting with a specific focus on natural capital accounting, climate and carbon accounting and greenhouse gas emissions measurement, verification and reporting. Given our experience and work in this area, we fully support the amendment of parts of the *Australian Securities and Investment Commission Act 2001* which will empower the Australian Accounting Standards Board (AASB) to deliver sustainability standards to meet the Government's commitment. Our reasons are provided below:

Large corporations and businesses have a responsibility to provide the Australian community and investors with timely, transparent and credible information relating to their social, environmental and climate related plans, financial risks, cost and opportunities. Recognising that climate change is a pressing global challenge, 196 countries across the globe signed a legally binding international treaty (the 'Paris Agreement') on climate change on 12 December 2015. Consistent with the Paris Agreement, the Australian government introduced new legislation, i.e., Climate Change Bills, seeking to reduce Australia's emissions by 43 per cent and overall net zero emissions by 2050. However, recent research by the University of London and Microsoft Australia indicates that 34% of Australia's largest organisations will miss their 2050 net-zero targets. Alarmingly, although there is a clear desire for a more sustainable future among Australian organisations with three-quarters of such organisations setting 2050 net zero targets, 68% of the organisations lack the ability to deliver on their targets due to the lack of necessary capabilities and expertise to identify, measure, quantify, account and report carbon emissions and associated climate risks. Although there are regulatory and compliance requirements nationally and internationally, there are currently no systematic guidelines and best practice methodologies for corporations in developing strategies in areas such as carbon emissions and reporting these to their myriad of external stakeholders.

To increase corporations' accountability towards achieving social, environmental and climate related targets and sustainability goals, it is absolutely crucial to maintain widespread accounting data, proper measurement tools and ensure accounting treatments for transactions and balances, financial planning, risk reassessments and finally reporting in a timely and transparent manner. Currently, corporations and businesses are using multiple guidelines and standards (i.e., the Global Reporting Initiative (GRI), The Sustainable development Goals, The Equator Principles and the SEEA Ecosystem Accounting etc.) on a voluntary and ad hoc basis. However, just merely reporting on environmental sustainability **without linking it to financial risks and opportunities**, does not provide a complete picture of a corporation's value and financial risks. A recent survey by KPMG indicates that sustainability reporting by companies has increased from just 18% in 2002, to 80% in 2020 globally. However, the academic research suggests that although sustainability reporting is on the rise, corporations and businesses are failing to properly measure and disclose the financial risks related to future environmental costs and consequently, often disregard (or understate) the impact of carbon prices and climate change in their business models. Such actions therefore fail to provide an important comprehensive picture of an entity's true performance. As such, having a proper set of standards and a standardised reporting framework developed by AASB will not only enhance corporate accountability but also the comparability of sustainability performance across sectors and within industries.

Most importantly, it is crucial for businesses to undertake a proper valuation of their businesses and formulate business models that incorporate social and environmental risks, costs and opportunities to grow the business thus creating both financial value for investors while maintaining the environmental and social values of corporations. The AASB, being the overseer of accounting standards for financial reporting in Australia, is therefore the ideal body to oversee and develop such sustainability related standards. To help corporations be accountable to society, community and investors, the verification of ESG sustainability reports is also equally important. We will also require a proper set of auditing standards so that external auditors can provide a true and fair assessment of the sustainability risks, performance, reports and disclosures produced by businesses. Once again, the AASB can play a critical role in this space.

Given the above reasons, we fully support the involvement and amendments of the AASB and AuASB to achieve the Australian government's climate-related goals and targets and also the related amendments of parts of the *Australian Securities and Investment Commission Act 2001* empowering the Australian Accounting Standards Board to deliver sustainability standards to meet the Government's commitment towards climate and community.

Thank you and please let us know if you would like a more detailed submission or have any queries.

Kind regards.

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