15 December 2022

The Treasury
Australian Government

climatereportingconsultation@treasury.gov.au

RE: Consultation: "Empowering the AASB to deliver sustainability standards"

The Global Reporting Initiative (GRI) would like to express to the Australian Treasury our support for its initiative to provide the AASB and AUASB with functions to develop and formulate sustainability standards and empower the FRC to provide strategic oversight and governance to this endeavour. Therefore, GRI welcomes the opportunity to share its views on opportunities to further strengthen the proposal to provide Australians and investors with greater transparency and accountability.

Over the past 25 years, GRI has established itself as the global standard setter for impact reporting. The GRI Standards are the world's most widely used standards for sustainability reporting, with more than two-thirds of the world's biggest companies voluntarily using the GRI Standards. A 2022 study from KPMG Australia found that 77% of the ASX100 use the GRI Standards to report on their impacts on the world.[1]

Business and Industry Associations also adopt the GRI Standards as a means for their members to be transparent. For example, members of the International Council on Mining and Metals, which makes up 1/3 of the global industry, are required to report their impacts using the GRI. ICMM membership includes the Minerals Council of Australia, and other companies headquartered in Australia, such as BHP, MMG, Newcrest Mining, South 32.

Policy makers and capital market regulators are increasingly requiring corporate sustainability reporting. Today there are 289 policies across 102 countries that reference the GRI Standards in their policies or compel their use by publicly listed companies.

In addition, GRI is a formal collaboration partner of the IFRS Foundation's ISSB as well as from EFRAG, the body responsible for the development of the double materiality based European Sustainability Reporting Standards (ESRS). Since 2021 GRI has been working in the capacity as co-constructor with EFRAG. Both collaborations are aimed at ensuring maximum interoperability between global standards and jurisdictional standards while minimizing reporting burden and challenge for companies.

[1] KPMG 2022 Report (Aus supplement): https://home.kpmg/au/en/home/insights/2022/10/sustainability-reporting-survey-2022.html

This response focuses on three fundamental concepts:

1. The need to assess a company's impact through a double materiality lens rather than take a financial materiality only approach,
2. The importance of alignment with existing global reporting standards to the highest extent possible to companies, investors, and other stakeholders,
3. The significance of good governance of the standards setting process to the quality and usefulness new standards.

In the Annex, we have included more specific and detailed comments for your consideration, including comments on terminology.

Ad1. Effective new Australian standards should adopt the double materiality principle

GRI believes that the current narrow focus on financial material information of the proposed new law is ill-advised. If the objective of the legislation is to direct capital flows towards climate and sustainability goals, then it is important to recognise in that law that a company only comes to understand how a sustainability topic impacts on its financial wellbeing by first understanding how it impacts society and the world in which it operates. Only then have investors, and other stakeholders the information needed to make informed decisions. This so-called double materiality approach to reporting ensures a full picture of an organisation.

Even when taking a narrow financial point of view, the importance of understanding a company's impact on the world cannot be overestimated. In the GRI 1 Standard the relationship between impact materiality and financial materiality is explained as follows: *"Even if not financially material at the time of reporting, most, if not all, of the impacts of an organization's activities and business relationships on the economy, environment, and people will eventually become financially material issues. Therefore, the impacts are also important for those interested in the organization's financial performance and long-term success. Understanding these impacts is a necessary first step in determining related financially material issues for the organization."*

Furthermore, it is critical that the two sets of information (financially material and impact material) are regarded as on an equal footing, grounded with a core set of common terminology, topical coverage, and disclosures wherever possible.

The benefits of such an approach are not limited to the external stakeholders of reporting organizations. The reporting burden for organizations will be reduced significantly, and the availability of credible and comparable data will improve access to sustainable finance.

Over the past years, there has been a growing realization in the investor community that merely extending general purpose financial reporting with additional topics, is not enough to redirect capital and make better decisions. Investors are requiring other qualitative and quantitative information in addition to financial information. The exponential growth of the membership of the UN Principles for Responsible Investment[2] can be seen as a proxy for this development.

Adopting a double materiality approach also reflects the spirit of the Sustainable Development Goals and will mark a definitive step towards implementing the whole-of-government implantation plan lead by The Department of Foreign Affairs and Trade and the Department of Prime Minister and Cabinet.

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[2] https://www.unpri.org/download?ac=17536 "We support the principle of double materiality in the provisionally agreed CSRD and its incorporation in the draft ESRS."

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Ad 2. Effective new Australian standards should be aligned with global reporting standards

We appreciate the balancing act the Australian Treasury needs to perform when regulating reporting standards for Australian companies. On the one hand standards must meet Australian policy objectives and fit within existing legislation while on the other hand the reporting companies are part of global value chains and operate in global markets, and the investors look beyond national boundaries when searching for investment opportunities.

With that in mind we strongly suggest striving for alignment to the maximum extent possible with the global complementary standards for sustainability impact reporting (the GRI Standards) and financial material reporting (the IFRS Sustainability Disclosure Standards). Such an approach safeguards globally relevant and comparable data and keeps the cost of compliance for companies within reasonable limits.

An added advantage of adopting and building on existing GRI and the yet to be finalized ISSB standards will be the accelerated implementation of the Australian standards as these are already the most widely used standards by companies in Australia and around the world.

Alignment with global instruments

Moreover, we believe that Australian standards need to align with key global authoritative intergovernmental instruments on responsible business conduct, human rights, and due diligence, such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises and due diligence guidance. These instruments represent global consensus around key concepts related to how a business needs to act. During the latest revision of our standards (launched in 2021) we worked very closely with the UN and the OECD to bring our standards closely in line with the expectations and concepts in these authoritative instruments. The GRI Standards are the first and only global reporting standards aligned with the expectation of due diligence as defined by the UN and OECD and endorsed by the OECD and provides a model for Australian standards. This is an important reason for naming the GRI Standards in the legislation.

This call for global alignment and alignment with global instruments underscores the ambition spelled out in Article 1.17 for the AASB to contribute to the development of standards for worldwide use. For GRI multi-stakeholder input is essential for the creation of credible standards. We therefore strongly support this ambition and welcome the AASB's voice in the global debate around reporting. However, we think it is important to clarify Article 1.17 by adding that the referenced global set consists of two interoperable but distinctly different collections of standards; one focused on impacts on the world and the second on how sustainability matters affect organizations.

Ad. 3. Good governance of the standards setting process to the quality and usefulness new standards.

Article 1.26 and 1.28 quite rightly addresses the qualifications of the members of the AASB and the AUASB. It recognizes that a different knowledge and experience set is needed for the development of sustainability standards. We believe that this article should be strengthened and clearly define a minimum amount of representation of persons knowledgeable in the fields of sustainability and climate change. The complexity of these topics and the broader set of impacted stakeholders further exacerbate the need for an appropriate number of knowledgeable staff at AASB and AUASB. An alternative is to have a separate board to consider sustainability reporting standards with the same standing as the AASB.

We would like to thank you for the opportunity to share our views on this important initiative and hope that our comments are useful. GRI will keenly follow the development of this legislation and we remain available for further engagement, and to provide any input or expertise regarding the next iteration of this initiative.

Sincerely,

Peter Paul van de Wijs, Chief Policy Officer

Global Reporting Initiative

Attached: Annex Detailed Comments GRI

ANNEX Detailed Comments GRI

General

- The interchangeable use of the terms 'sustainability standards' and 'sustainability reporting standards' is problematic. The term sustainability standards is too broad and implies that the AASB will be empowered to develop sustainability standards which are not limited to reporting and disclosure in the future.
- The text makes reference to both sustainability reporting and sustainability-related financial reporting. It would be helpful to be clear about the language and the differences as they relate to the authority to create Australian standards. We believe that the first term encompasses both sides of double materiality whereas the latter only covers financial materiality.

Exposure Draft Explanatory Materials

- Article 1.2 – Suggest to specifically call out the adoption of the CSRD and the related European Sustainability Reporting Standards, as they will have an impact on Australian companies as part of a global value chain, as an owner of a subsidiary in the EU or when it sells for more than 150'000'000 annually into the EU. The European reporting requirements demand impact reporting from Australian companies not just sustainability-related financial reporting. Therefore, we suggest below under Article 1.9 and 1.18 to include impact reporting based on the GRI Standards in the legislation.
- Article 1.4 – The suggestion that there exists an ISSB baseline is incorrect. The first two IFRS Sustainability Disclosure Standards are scheduled for publication June 2023.
- Ar ticle 1.5 – The initial focus on Climate Change is understandable but problematic since global consensus has been building that Climate Change cannot and should not be addressed in isolation.
- Article 1.9 and 1.18 – Suggest adding alignment with the GRI Standards to the text. The combination of aligning with the ISSB and GRI Standards will ensure the needs of all stakeholders including investors are met as well as better protect national social and environmental interests.
- Article 1.10 – The underlying premise that investors are only interested on financial information is incorrect. Clarifying the language in this article to refer to sustainability reporting standards, adding the 'provision of sustainability related financial information' and adding provision of 'external impact related information' will strengthen this article and clear up the confusion.
- Article 1.17 – Clarify that the referenced global set consists of two interoperable but distinctly different collections of standards; one focused on impacts on the world (GRI) and the second on how sustainability matters affect organisations (IFRS Sustainability Disclosure Standards).
- Article 1.22 – We appreciate the intent to not overburden SMEs and not for profit organisations but caution against developing different standards for these groups as it will undermine the comparability and usefulness up and down the value chain of the reported data. Requiring companies in these two categories to only report on a selection of the disclosures of the large companies would address this concern.
- Article 1.27 – Suggest to include a reference to aligning the work of the AUASB with the development of a global assurance standard currently ongoing at the IAASB (the International Auditing and Assurance Board).

Exposure Draft

- In addition to the ISSB, subsection 5(1) (amendment no. 1) should refer to the Global Reporting Initiative (GRI) Standards and should not preference standards from either body.
- The amendment to para 224(a) (amendment no. 2) be to insert “sustainability reporting standards”, not “sustainability standards” and other affected (sub)paragraphs be amended accordingly.
- Regarding the insertion after subsection 225(1) (amendment no. 8), delete (1A)(c)(iii) “sustainability standards” as it is inappropriate to have only one set of sustainability reporting standards, financial materiality focused addressing the needs of the investor audience only. We expect that globally both the ISSB and GRI standards will co-exist as complementary standards meeting the needs or a full range of stakeholders including but not limited to investors.
- Delete proposed new para 227(1)(d)(ii) (amendment no. 17) referring to a single set of sustainability standards, or amend in line with the feedback on article 1.17 to reflect double materiality.
- Regarding proposed new subsections 227(4), (5) and (6) (amendment no. 19) and subsection 236A(2)(b) (amendment no. 29) add reference to “and/or global sustainability reporting standards”.

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