

International Sustainability Standards Board

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## **Submission: International Sustainability Standards Board Request for Information *Consultation on Agenda Priorities* September 2023**

30 August 2023

### **Overview**

The Responsible Investment Association Australasia (RIAA) welcomes the opportunity to provide this submission to the International Sustainability Standards Board (ISSB) on the Request of Information *Consultation on Agenda Priorities* (agenda consultation) which will shape the next two-year work plan of the ISSB.

RIAA would like to acknowledge the great role ISSB plays in working with jurisdictions to ensure global alignment and adoption where possible. We congratulate the ISSB and acknowledge the efforts taken to publish [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) and [IFRS S2 Climate-related Disclosures](#). A collaborative and coordinated approach with existing and developing frameworks will be fundamental to the ISSB's standard setting process, to achieving global consensus, and avoiding the potential for future disintegration. The ISSB will need to closely engage with frameworks in areas relating to the future research topics identified and with a similar focus on investors. For example, the [Taskforce for Nature-related Financial Disclosures](#) (TNFD) and how that will interact with IFRS S1 and S2 and any future IFRS Sustainability Disclosure Standards.

RIAA's views and responses are outlined below. We also refer to the Peak Australian Bodies submission on the agenda consultation. The joint submission clearly shows broad support for some key priorities to the ISSB two-year work plan. Further information on RIAA is at the end of the submission.

## Question 1 – Strategic direction and balance of the ISSB’s activities

### (a & b) Overview of activities within the scope of ISSB’s work ranked from highest to lowest priority:

RIAA prioritises the activities as follows:

#### 1. Supporting the implementation of ISSB Standards (IFRS S1 and IFRS S2)

Reason: It is crucial that capacity building and support of effective implementation of IFRS S1 and IFRS S2 are prioritised. The IFRS S1 already includes concepts from the Integrated Reporting Framework and sets the baseline for consideration around future topics.

#### 2. Beginning new research and standard-setting projects

Reason: Nature-based solutions play a vital role in the complex challenge that the impact of the loss of nature has on our ability to stabilise the climate. There is increased recognition by investors and regulators globally that nature is important in achieving climate outcomes with both nature and biodiversity posing risks and opportunities to organisations. UNEP research shows that nature-based solutions play an important part in meeting the goals of the Paris Agreement.<sup>1</sup> New research and standard-setting projects on nature-related risks can be benefited by an integrated approach to the ‘climate-nature nexus’.

Given the interdependencies between biodiversity, nature and climate, the TNFD framework complements the ISSB in achieving global consistency for sustainability reporting. The TNFD is developing into a robust, widely accepted framework. The TNFD framework helps organisations report and act on evolving nature-related risks and allows financial institutions and companies to incorporate nature-related risks into their strategic planning, risk management and decision-making. Engaging with the existing TNFD provides ways of identifying, valuing, and reporting on nature-related risks. The TNFD framework provides key information on enabling market-led change in how financial risk identification and management are reported.

#### 3. Researching targeted enhancements to ISSB Standards

Reason: In support of the application of the IFRS S2, we support targeted enhancements to disclosures on nature and the ‘just transition’ to a lower-carbon economy. A human-rights based approach to the energy transition is necessary to ensure inequality and other social issues are addressed the economy changes. The ‘just transition’ is best supported by integrated thinking, decision-making and reporting due to the wide range of investors and companies involved in the transformation to net zero. Given that more than [half of the world’s GDP](#) (\$44 trillion) is moderately or highly dependent on nature and its services, and 30% of Australia’s GDP is dependent on biodiversity and ecosystem services, the issues at stake are clearly significant and urgent.

#### 4. Enhancing the Sustainability Accounting Standards Board (SASB) Standards

Reason: We acknowledge the ongoing work done by the ISSB and support its continued commitment to building on the standards.

## Question 2 – Criteria for assessing sustainability reporting matters that could be added to the ISSB’s work plan

### (a) Do you think the ISSB has identified the appropriate criteria?

As it relates to 'the importance of the matter to investors', it would be beneficial for the ISSB criteria to specifically consider existing or likely upcoming regulatory requirements. There are numerous projects across jurisdictions regarding sustainability disclosures and many overlap in scope. It would be useful for ISSB standards to consider other regulatory developments to ensure consistency and that the standards set meet future regulatory requirements.

Missing criteria includes:

#### Assurance

- The assurance/audit process which is key to credibility of the system.
- With the EU soon to require disclosures and tax those who do not comply or embody excess carbon, it will make it simpler if robust and consistent assurance is in place from appropriately skilled and accredited auditors.
- Sustainability reporting standards need to emulate financial auditing standards.

#### Materiality

- RIAA supports a double materiality approach to sustainability disclosures. And encourages ISSB to allow for the full incorporation of a full double materiality approach in the future, with future work of the ISSB adopting a more fulsome approach to materiality.

Investors, issuers and lenders have diverse information requirements when it comes to sustainability issues, depending on the structure and type of investment product, and will increasingly desire information on sustainability issues that affect valuation, as well as companies' exposure to and impact on systemic risks. Companies will therefore increasingly need to assess materiality with a view to the company's impact on climate, environment, people and other sustainability issues, as well as assess possible longer-term effects of this impact on the company's enterprise value.

There have been moves by the European Parliament towards enshrining the 7 principles of double materiality into the GRI's work on material impact as well as the European Sustainable Reporting Standards. For transparency in reporting and to avoid exploitation, it is important for the ISSB to include criteria addressing firm guidance, e.g. both direct and indirect impacts, and to incorporate double materiality into its standards.

#### **(b) Should the ISSB consider any other criteria? If so what criteria and why?**

There is global momentum amongst investors to better understand, analyse and value assets based on the management of nature-related risks. Nature is beginning to inform the investment sector view of value in the same manner that carbon is impacting value and investment markets. A robust framework that is widely adopted will enable companies and investors to better report on their exposure to nature-related risks and opportunities and will help direct capital to support a healthy natural environment.

#### **Question 3 – New research and standard-setting projects that could be added to the ISSB's work plan**

**(a) Taking into account the ISSB's limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?**

As governments implement policies set out in the Kunming-Montreal Global Biodiversity Framework and investor commitments are translated into science-based targets, nature-related reporting and associated infrastructure should be prioritised. Expectations surrounding the emerging global threat to nature and biodiversity are rapidly moving with investor expectancy and reporting standards growing. Biodiversity and nature loss are increasingly being recognised as a crisis as large as climate change, with natural points of convergence between climate and nature reporting. Nature-related reporting standards require holistic thinking. Reporting frameworks such as the TNFD strengthen investors' ability to make more nature-positive capital allocation. Integrated decision-making and reporting are required to match the scale of the biodiversity loss challenge. This approach will also help to reduce duplication.

Existing Australian sustainability reporting requirements:

As per the Peak Australian Bodies submission, RIAA supports alignment across the current multiple disclosures frameworks. Although individual sectors have their own risks, opportunities and reporting requirements there are cross-sectoral examples of both voluntary and mandatory sustainability reporting by Australian entities across a variety of metrics.

- Environment disclosures (voluntary):
  - Certification of net zero scope 1 emissions, undertaken through the Climate Active Scheme
- Environmental disclosures (mandatory):
  - Reporting on GHG emissions, energy production and energy consumption under the National Greenhouse and Energy Reporting Scheme
  - Climate-related financial risks and opportunities (currently voluntary but proposed to be progressively mandated from FY2024-25)
- Social disclosures (mandatory):
  - Risks of modern slavery in operations and supply chains, and actions to address those risks (mandatory for organisations of a certain size)
  - Gender equality reporting (metrics to be reported on will be expanded for organisations of a certain size from FY24 onwards)
- Social disclosures (voluntary)
  - Reconciliation Action Plans with First Nations Peoples

**Question 4 – New research and standard-setting projects that could be added to the ISSB's work plan: Biodiversity, ecosystems and ecosystem services**

**(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? Please select as many as applicable.**

There are multiple different frameworks being used with different strengths and approaches. It is important that these are considered and aligned wherever possible. To ensure the ISSB's standards are aligned with existing reporting practices, the ISSB should leverage and prioritise the following materials and organisations for their valuable insights:

- Task Force on Nature-related Financial Disclosures (TNFD): The TNFD is developing and delivering a risk management and disclosure framework for organisations to report and

act on evolving nature-related risks. This could provide valuable insight for the ISSB's project.

- Global Reporting Initiative (GRI): GRI's standards include several indicators related to biodiversity, which ISSB could build from.
- Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES): IPBES produces authoritative scientific assessments on biodiversity and ecosystem services, which could inform the ISSB's understanding of these topics.
- Science Based Targets Network (SBTN): SBTN builds on the Science Based Targets initiative (SBTi) and provides methods and resources for science-based targets (SBTs) for nature for companies and cities. It supplements the climate-based SBTi and offers nature-based targets for water, land, ocean, and biodiversity -- progressing towards Sustainable Development Goals (SDGs) and global policy milestones.
- SASB
- CDSB
- IFRS

These materials and organisations are widely accepted and provide science-based, market-led, robust frameworks and data on biodiversity, ecosystems and ecosystem services.

**Question 5 – New research and standard-setting projects that could be added to the ISSB's work plan: Human capital**

**(a) Of the subtopics identified in paragraph A22, to which would you give the highest priority? Please select as many as applicable. Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:**

**(i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and**

**(ii) your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.**

RIAA prioritises the subtopics as follows:

**1. Employee engagement**

Reason: (a) increasingly company value comes from intangible drivers, where talent makes up a significant part of that;

b) engagement of the workforce tends to correlate with e.g. voluntary staff turnover (which can be costly), productivity (key value driver), customer satisfaction (key value driver, particularly in industries subject to fierce competition) and general conduct issues; and  
c) given technology change and other macro drivers, skilled workforce is increasingly important to attract and retain in a competitive labour market.

- Key indicators include voluntary staff turnover, staff engagement/pulse survey results and participation rates and similar, particularly compared to NPS and other customer satisfaction metrics. Another metric is cases reported (and followed up on/substantiated) in relation to the whistle blower hotline.

However, by nature, this is an intangible driver which means reporting metrics are not always straightforward.

## 2. Worker wellbeing

Reason: similar to the reasons outlined above, plus increased liability risk for poor occupational health and safety performance (both in terms of fines and the reputation/ability to attract and retain a productive workforce).

- Key indicators include both lag indicators and lead indicators. For example, TRIFR and near misses as well as severity rates, hours spent on OH&S training, links between OH&S outcomes and executive remuneration.

## 3. Labour conditions in the value chain

Reason: (a) the risk of exploitation is higher in the value chain, particularly deep in the supply chain; and

b) labour conditions are generally better regulated and monitored in a company's own operations while low-paid jobs and dangerous work is often contracted out or performed in the supply chain, which is subject to less regulation.

- Key indicators include identified cases of adverse labour rights findings. More importantly, a general narrative around the identification process, the use of, and communication of, grievance mechanisms, remediation policies and more. Simply reporting of auditing statistics is not very useful. If traditional social audits had solved the problem, we would not be in a situation where an estimated 50 million people are in modern slavery conditions.

## 4. Diversity, equity and inclusion

Reason: covered under 'employee engagement'

- Key indicators include the percentage of women who return to the workforce after maternity leave and targets for gender diversity at various levels of the organisation.

## 5. Workforce investment

## 6. Workforce composition and costs

## 7. The alternative workforce

**(b) Do you believe that sustainability-related risks and opportunities related to human capital are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?**

Yes. Naturally there will be some differences between various sectors. For example, OH&S (as part of the worker well-being category) will differ substantially. However, by and large most businesses will be subject to the same drivers. The categories described above could be important value drivers for companies across the spectrum. Staff engagement will always be a value driver, and the downside risk of poor labour conditions in the value chain can pose a similar legal risk (although the brand/reputational risk might differ somewhat). The risks of poor labour conditions are more prevalent in Southeast Asian supply chains, partly due to cultural differences and different legal standards, such as in relation to labour hire fees and different definitions of modern slavery.

There are also some general differences/patterns by industry:

- OH&S risk is particularly high in mining, agriculture, transport, retail (distribution centres and logistics) and other industries involving significant manual labour
- Employee engagement and the risk of costly staff turnover is particularly of high importance in industries highly dependent on human capital development, such as IT, technology, diversified financials/banks, insurance and similar

**(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A25 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.**

Within the broad, diverse and global membership base there are multiple different frameworks being used with different strengths and approaches. It is important that these are considered and aligned wherever possible. The ISSB's should leverage and prioritise the following materials and organisations for their valuable insights:

- Global Reporting Initiative (GRI): GRI's standards include several indicators related to human capital. These could serve as a starting point for the ISSB's project.
- The International Labour Organization (ILO) - The ILO has labour rights standards which can act as minimum standards.
- [B-Lab's](#) / [B-Corp's](#) certification
- Responsible Investment Association Australasia Certification Program: Responsible Investment Certification Program is the leading initiative for distinguishing quality responsible, ethical and impact investment products and services in Australia and Aotearoa New Zealand. RIAA's Certification Symbol is recognised by investors and consumers across the region, providing confidence that a product or provider is delivering on its responsible investment promise and meeting the Australian and New Zealand Standard for responsible investing.

These materials and organisations are widely accepted and provide science-based, market-led, robust frameworks and data on human capital.

#### **Question 6 – New research and standard setting-projects that could be added to the ISSB's work plan: Human rights**

**(a) Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB's research**

In line with the Peak Australian Bodies submission, RIAA supports giving highest priority to labour rights and non-discrimination and equality. This includes fair wages, safe working conditions, and the right to collective bargaining. RIAA also prioritises the following subtopics as follows:

##### **1. Modern slavery**

Reason: although modern slavery is differently defined in different regions and geographies, increased regulation globally, including outright import bans in relation to forced labour will become an increasingly important topic. There are existing examples of Modern Slavery Acts that provide a useful definition such as the Australian Modern Slavery Act. Modern slavery also

ties back to the UN SDG 7.8 to eradicate forced labour by 2030. Forced labour is pervasive in key industries that are driving deforestation around the world. Modern slavery is linked to environmentally degrading industries with high climate change impacts. Renewable industries vital to the global transition to net zero are also reliant on forced labour to mine, process and manufacture critical minerals and inputs.

## 2. Living wages

Reason: The topic of living wages is complex, particularly when applied to a supply chain, but there are a number of methodologies available to assess a living wage, which might differ substantially in different regions. A business model that relies on under paid workers, unsustainably low wages and/or weak regulation will unlikely produce sustainable earnings.

## 3. Freedom of association

Reason: most labour rights scandals have occurred in companies or supply chains with no union representation.

## 4. The use of grievance mechanisms both internally and in the supply chain

Reason: Associated reporting on cases and follow-ups can provide some reassurance to investors (see discussion on human capital above).

All four relate to investment risks in the form of:

- brand risk
- earnings sustainability
- as a proxy for management quality

**(b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate? Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.**

Yes. Sustainability risks-related risks and opportunities are substantially different across business models. These risks vary by region and industry and can generally be applied as a proxy for broader human rights issues.

**(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A36 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.**

There are multiple different frameworks being used with different strengths and approaches. It is important that these are considered and aligned wherever possible. The ISSB's should leverage and prioritise the following materials and organisations for their valuable insights:

- United Nations Guiding Principles on Business and Human Rights (UNGPs) and the associated UN Guiding Principles Reporting Framework
- OECD Guidelines for Multinational Enterprises on Responsible Business Conduct
- United Nations Global Compact (UNGC)
- World Business Council for Sustainable Development (WBCSD)
- Capitals Coalition
- [B-Lab's](#) / [B-Corp's](#) certification

These materials and organisations are widely accepted and provide science-based, market-led, robust frameworks and data on human rights.

**Question7 – New research and standard-setting projects that could be added to the IBBS's work plan: Integration in reporting**

RIAA prioritises integration in reporting as a higher priority.

Reason: We encourage the ISSB to adopt focus on the role of integrated thinking and reporting as a fundamental approach to new research and standard-setting projects. It is important to get support and educate on the reporting of recent recommendations and get this right before expanding on to other topical issues. This will build expertise amongst corporates and confidence from investors. We see great value in integrated reporting due to the interconnectedness of sustainability topics. For instance, nature is intrinsically linked to climate change. Recognising these links drives comprehensive and effective sustainability strategies, mitigates against the risk of compartmentalised thinking, and reduces duplication.

**(b) if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?**


Integration in reporting should be a joint project between the ISSB and the IASB to avoid duplication and achieve the goal of a global comprehensive corporate reporting system.

**(c) In pursuing the integration of reporting the ISSB should build on the following frameworks:**

Within the broad, diverse and global membership base there are multiple different frameworks being used with different strengths and approaches. It is important that these are considered and aligned wherever possible. The ISSB's should leverage and prioritise the following materials and organisations for their valuable insights:

- TNFD framework –by incorporating the TNFD framework, the ISSB can continue to strengthen the building blocks needed to facilitate high-quality and comparable disclosures and integrated reporting.
- Integrated Reporting Framework - The IFRS S1 already includes concepts from the Integrated Reporting Framework and sets the baseline for consideration around future topics. The framework emphasises the importance of integrated reporting and the interdependency of sustainability topics.

## About RIAA and our members



RIAA champions responsible investing and a sustainable financial system in New Zealand and Australia and is dedicated to ensuring capital is aligned with achieving a healthy society, environment, and economy.

With over 500 members managing more than US\$29 trillion in assets globally, RIAA is by far the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across New Zealand and Australia. RIAA's membership includes superannuation funds, KiwiSaver default providers, fund managers, banks, consultants, researchers, brokers, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups, and others involved in the finance industry, across the full value chain of institutional to retail investors. RIAA represents 58% of all managed funds in Australia, and 72% of all managed funds in New Zealand.

RIAA's membership list can be found here: [Directory - Responsible Investment Association Australasia \(RIAA\)](#)