January 2022

GRI response to the Australian Accounting Standards Board (AASB) relating to Extended External Reporting (EER).

Reponses to the consultation questions

Dear members of the AASB,
We would like to commend you for this initiative, and for welcoming public feedback and stakeholder engagement during the process. Please find enclosed the GRI response to the Australian Accounting Standards Board (AASB) relating to Extended External Reporting (EER).

We look forward to hearing how this initiative progresses. Needless to say, that GRI remains available to provide any input or expertise you may need regarding the next iteration of this initiative, and we hope to continue our conversations with AASB the broader field of sustainability reporting. We look forward to further discussing our feedback, and the ideas proposed in this consultation.

Your Sincerely,

Q1. Do you agree with the need for the AASB to adopt an immediate position, or should the AASB continue not to adopt a position until a wider international consensus has been identified?

The question whether or not to adopt an 'immediate position' depends not only on where the AASB would like to position itself with respect to sustainability reporting, but most of all on a clear understanding what that international consensus will look like.

There are currently two complementary developments in the sustainability reporting landscape which the AASB should consider as part of their decision making:

1. European Sustainability Reporting Standards (ESRS) are being created by the European Union– with the European Financial Reporting Advisory Group (EFRAG) and GRI leading co-construction efforts.
2. Standards for the disclosure of sustainability-related financial information are being drafted by the International Financial Reporting Standards (IFRS) Foundation – with which the newly established International Sustainability Standards Board (ISSB) is charged.

The main differences between them are:

1. First, the European Union is focused on developing reporting standards that reflect the multi-stakeholder information needs on the full sustainability spectrum across socio-economic and environmental aspects. The exclusive remit of the standards developed by IFRS Foundation is on the needs of investors and the financial impact of sustainability issues on the reporting entity itself, focusing on enterprise value creation. The ISSB is about what is commonly known as

'financial materiality'[1] and the ESRS is about 'double materiality'.[2]

2. The second major difference is enforcement. The EU standards are backed by a political process and enforcement capabilities, making reporting mandatory for some 50'000 companies from financial year 2023.[3] The IFRS standards are voluntary and can only encourage uptake of ISSB standards.

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[1] https://www.ifrs.org/groups/international-sustainability-standards-board/issb-frequently-asked-questions/

[2] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520PTF-NFRS_MAIN_REPORT.pdf

[3] The proposal will extend the scope of sustainability reporting requirements to all large companies, whether they are listed or not meeting 2 out of 3 criteria: Revenues > EUR 40 million, Total assets > EUR 20 million and > 250 employees. See: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

GRI is a firm believer and supporter of the creation of a **comprehensive corporate reporting system** based on a **two-pillar structure** - for financial and sustainability reporting - with a core set of common disclosures, each pillar on an equal footing and mandated.[4]

- **Pillar 1** - addressing financial considerations through a strengthened financial report which includes sustainability disclosures, in the context of enterprise value.
- **Pillar 2** - concentrating on sustainability reporting focusing on all external impacts a company is having on society and the environment and hence their contributions towards the goal of sustainable development.

GRI believes both sustainability reporting initiatives should not be regarded as competing but complementary to (strengthened) financial reporting. GRI is fully committed to supporting this objective and will cooperate with the ISSB, EFRAG and other (inter) governmental organizations to drive sustainability disclosure in a two-pillar reporting structure forward providing the sustainability reporting pillar.

Under the European Sustainability Reporting Standards (ESRS) Australian companies that have (parts of) the supply chain or value chain in the EU will also need to prepare to report on this information – due to the inclusion of value chain requirements. If the AASB wants to limit the reporting burden for Australian companies supplying EU companies adopting or aligning with EU standards is advisable. In order to prepare for this, a first good step for the AASB would be to adopting or aligning the GRI Standards as GRI is involved in the EU process, as co-constructor of the ESRS.

With the global trend towards the two-pillar approach, the need for taking an immediate position by the AASB becomes 'less urgent'. We call on the AASB to publicly endorse the two-pillar approach including the double materiality principle. The future of corporate reporting landscape will be made up both by strengthened financial reporting (pillar 1) as well as sustainability reporting (pillar 2). Not in the least because stakeholders, including investors, have made it apparent that a sole focus on financial impact and enterprise value creation alone will not explain an organization's efforts on behalf of climate and society. Besides, sustainability issues have (in)direct effects on the capabilities and opportunities to create value in the future. Providing this perspective is precisely what the GRI Standards have been valued for 25 years: allowing organizations to identify, prioritize and be transparent on its impacts on the economy, environment, and people.

GRI is at the heart of global convergence relating to standards for the reporting of impacts of an organization on climate and society. It provides the basis for development of current and future reporting standards and through its sound framework for listed companies to develop standards that will be in line with the eventual IFRS Standards. Reporting using the GRI Standards will prepare the local companies and create a global baseline for both reporting according to IFRS and EU requirements.

Q2. Assuming that an immediate position is adopted as contemplated by the proposal, should the position be applied on a voluntary or mandatory basis?

The need for standardized, comparable information of good quality to enhance decision making by shareholders and stakeholders – in a way that avoids standard and framework shopping, cherry picking, and greenwashing – is bigger than ever. The AASB correctly mentions there is a "significant stakeholder demand for the AASB to provide some form of guidance for those preparers wanting to take immediate reporting action." GRI has and will always be a strong advocate of mandatory reporting, preferably combined with external assurance requirements. Voluntary standards can merely give the 'impression' of accountability. The AASB can however also give more guidance by providing more clarity and combat the

[4] https://www.globalreporting.org/about-gri/news-center/the-gri-perspective-why-informing-all-stakeholders-is-good-for-business/

spread of misinformation around the sustainability reporting landscape. The AASB could simply set out the facts regarding current use of reporting standards and frameworks and advise companies to adopt one or more. Something that most reporters already do, by conducting their sustainability report based on more than one single standard or frameworks because using only one does not serve all their reporting needs.[5]

Reporters and user of reporters are sometimes confused in the myriad of guidelines, frameworks, surveys, and certifications that deal with the topic of sustainability. The current reporting landscape is often incorrectly referred to as an 'alphabet soup', when it comes to actual standard setters there are only two reporting standards: GRI and SASB. With TCFD providing a framework for climate related financial disclosure but is not a reporting standard as such. The GRI Standards – being the oldest and most widely used standards – are used by most organizations as the baseplate foundations upon which they build their sustainability reporting topped off with other standard, framework ,or principle requirements. As will be elaborated on the next question, research on adoption of sustainability standards, frameworks and principles shows that the GRI Standards are the most widely adopted reporting mechanism for sustainability purposes by Australian companies.

At GRI we have therefore also made connections between the GRI Standards and other frameworks and initiatives, providing linkage documents to ensure that reporting through the GRI Standards is as straightforward as possible while helping to fulfill needs for transparency and sustainability disclosures for organizations.[6]

Q3. Assuming that an immediate position is adopted and regardless of whether the position is adopted on a voluntary or mandatory basis, do you agree that the recommendations of the TCFD provide an appropriate framework for this position?

At GRI we believe that the recommendations of the TCFD framework provide an insufficient basis for extended External Reporting; as a matter of fact the TCFD is not a comprehensive set reporting standards rather a set of principles (see also the report from the Corporate Reporting Dialogue). An immediate position to recommend only one current framework, covering one issue – being climate - would be a backward step. The main reason is that the needs of the Australian economy, its people and its environment go beyond climate metrics alone.

The AASB's draft Position Statement that "all stakeholder feedback that the AASB has received to date is that the TCFD is the most commonly applied framework for EER in Australia" is contrary to evidence. With over 10,000 reporting organizations, covering more than 100 countries and 73% of the world's 250 largest companies: the GRI Standards are the most widely adopted sustainability reporting standards in the world[7], but also in Australia. The Australian supplement of the 2020 KPMG Global Sustainability Reporting Survey mentions that 66% of ASX100 companies report using GRI Standards, up from 42% in 2017.8 This is confirmed by the 2020 research from First Advisors that 60% of the ASX100 companies use GRI, followed by TCFD (40%), UNGC (37%) and SASB (7%).[9]

Not only external data shows a significant interest in the GRI Standards, GRI's internal data shows that in 2021, there were a total of 16.878 downloads of the GRI Standards from Australia. Most users download a package of all the Standards but many also search for topic specific standards. The top-5 individually downloaded Topic Standards over 2021 were:

- GRI 403: Occupational Health and Safety 2018 (875 downloads)

[5] https://www.globalreporting.org/about-gri/news-%20center/gri-and-sasb-reporting-complement-each-other/
[6] For a full overview see: https://www.globalreporting.org/how-to-use-the-gri-standards/global-alignment/
[7] https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf
[8] https://assets.kpmg/content/dam/kpmg/au/pdf/2020/sustainability-reporting-survey-2020-au-supplement.pdf
[9] https://www.firstadvisers.com.au/esg-reporting-among-the-asx300/

- GRI 306: Waste 2020 (852)
- GRI 305: Emissions 2016 (570)
- GRI 201: Economic Performance 2016 (478)
- GRI 303: Water and Effluents 2018 (382)

These numbers do not just show the wide uptake of GRI Standards in Australia, but more importantly they proof that Australian companies have decided that they need to report on broader sustainability issues than climate alone; a need which cannot be addressed by the TCFD framework. For many Australian companies and industries, it goes that they are not all impacted by environmental issues to the same extent, with many organizations facing relatively more pressure on social and governance issues. Mandating the TCFD framework would leave out all social and governance issues and most other environmental components, thereby limiting the ability of these companies to show their true impact on sustainable development.

The S in ESG often gets overlooked with much of the public and investors focusing on climate and the environment. This notable, since in Australia the public focus on social issues is strong with the incidents around Juukan Gorge, the first reports under the Modern Slavery Act, the First Nations peoples' rights and of course COVID-19.

These are social topics that the TCFD conceptual framework does not cover making it thereby not suitable for corporate reporting under these broader sustainable development issues. The GRI Standards offer a strong coverage on social issues that can help companies inform on their decision making on topics such as Employment, Labor relations, Diversity & Equal Opportunity, Health & Safety, and Local communities and Indigenous people. Thereby allowing organizations to identify and prioritize its impacts on the economy, environment, and people and assessing their significance which varies according to its specific circumstances.

If the AASB is truly committed in developing reporting requirements that will allow companies and stakeholders to encompass the full spectrum of sustainable development on the Australian economy, the environment and people, these are things the AASB should consider.