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Research Project 3: Improving the Visibility of Soil Health and Risks in Corporate Reporting

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ABSTRACT

The International Sustainability Standards Board's (ISSB) Exposure Draft ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information recognises the relevance sustainability-related information given the relationship between natural resources and enterprise value. ED/2022/S1 therefore proposes to enhance the disclosure of information concerning an entity's natural resource impacts and dependencies and the associated sustainability risks and opportunities.

Compared to other natural resources, soil has been largely overlooked from a sustainability reporting perspective. Soil health significantly influences agricultural production, drought resilience and the delivery of other essential ecosystem services including flood control, water purification and climate regulation (Greiner et al. 2017). Soil is rapidly degrading at a global scale (Yang et al. 2020) and most of Australia's soil suffers from constraints that significantly impact productivity (see Orgill et al. 2018). Sodicity, acidity and salinity problems across the Australian Wheatbelt, for instance, are estimated to cost around \$2 billion/year in lost production (Orton et al. 2018). Problems associated with ongoing soil degradation are of particular concern given future global food demand projections (Bennett et al. 2010).

The invisibility of soil in financial reporting has contributed to the broader lack of financial incentives for agribusinesses to implement soil stewardship strategies (Pawsey et al. 2021). Over the short-term, soil nutrient levels can be exploited to boost productivity. This can ultimately lead to longer-term problems which may require costly corrective measures to restore soil health. These and other soil-related risks are generally not considered within current equity and credit risk assessments (Voysey 2022; CISL & Robeco 2022).

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At present, the ISSB and other sustainability reporting bodies including the TCFD, GRI, IIRC, SASB and CDSB have offered only limited coverage on soil-related matters. Noting the gaps, our study aims to contribute to the development of ED/2022/S1 and advance soil-related reporting by engaging ASX-listed agribusiness financial statement preparers and investors to:

- Determine the significance of soil-related risks and opportunities to agribusinesses and investment decisions.
- Understand the usefulness of soil-related information to the understanding of an entity's business model, strategy, access to finance and current and anticipated future financial performance, position and cash flows.
- Identify the most appropriate means by which useful soil-related information could be disclosed and connected to the information in an entity's general purpose financial statements.
- Understand how can financial statement preparers can be best supported to provide relevant information on soil-related risks and opportunities.

Australian agribusinesses are significant both from an environmental and economic standpoint. These entities account for more than 50% of Australia's land use (Jackson et al. 2020) and the market capitalisation of the Top 50 ASX-listed agricultural entities is approximately \$40 billion (Bull Market, 2020). There is growing investor interest in agribusinesses with an S&P/ASX Agribusiness Index having recently been launched to support the monitoring of this sector.

Whilst our project is focused on agribusinesses with immediate soil-related risks and opportunities, the results are likely to be relevant to food manufacturers and retailers and other organisations who are dependent on agricultural produce. The project findings will further provide important insights by which reporting entities might consider the materiality of sustainability-related risks and opportunities and disclose relevant information on these matters more broadly.