



Maritime Union of Australia (MUA)

Submission to the Australian Accounting Standards Board (AASB)

Response to its Exposure Draft Australian Sustainability Reporting Standards – of October 2023

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About the Maritime Union of Australia (MUA)

The Maritime Union of Australia (MUA) is an affiliate of the 2-million member Australian Council of Trade Unions (ACTU) and an affiliate of the 20-million-member International Transport Workers' Federation (ITF).

The MUA represents approximately 14,000 workers in the shipping, stevedoring, offshore oil and gas, port services and commercial diving sectors of the Australian maritime industry. The MUA is also part of an Offshore Alliance with the Australian Workers Union (AWU) that jointly organises workers across the Australian offshore oil and gas industry.

The ITF represents workers involved in the shipping, ports, rail, road, airline and logistics components of global supply chains.

Our interest in the AASB standards

The National Secretary of the MUA is also the President of the International Transport Workers Federation, and in that capacity, is Vice Chair of the Global Unions Committee on Workers Capital (CWC), a committee of the International Trade Union Confederation (ITUC). He Chairs the Asset Manager Accountability Initiative of the CWC, an initiative which engages with the globe's largest asset managers to leverage the power of collective action by asset owners to drive changes down the investment chain by holding the largest global asset managers accountable to their clients on human and labour rights. The MUA National Secretary is also a director on the board of the ACTU Centre for Workers Capital.

The MUA would be happy to elaborate on the matters raised in our submission in a bi-lateral dialogue with AASB.

The MUA submission

AASB Specific matters for comment

Presenting the core content of IFRS S1 in [draft] ASRS Standards

Q1

- We do not support the AASB proposal to limit the scope of disclosure requirements based on IFRS S1 to climate-related financial disclosures for two reasons:
 - We believe it is important that as far as possible, the AASB standards follow the structure of the IFRS/ISSB standards to help support global consistency in disclosure/reporting; and
 - By limiting the scope of proposed AASB standard to climate, rather than sustainability, the AASB will be confining AASB standards to climate, when the ISSB intention is to soon address Nature-related Financial Disclosures derived from the work of the Taskforce on Nature-related Financial Disclosures (TNFD), to be followed we expect by what it calls 'Human Capital and Human Rights' disclosures. We submit that AASB acknowledge that the ISSB is currently considering proposed projects on sustainability-related risks and opportunities covering, inter alia, human capital and human rights as a result of its 2023 stakeholder consultation on the ISSB's future work plan. While the outcomes of the stakeholder consultation remain under consideration, it is clear that ISSB will be moving towards embedding standards on what it describes as human capital and human rights

in its future standard setting work. See for example the ISSB Paper of November 2023 *Feedback summary—Proposed projects on sustainability-related risks and opportunities*¹:

- ❖ We also urge AASB to keep in mind the Paris Agreement statement, in the context of transitioning to a low carbon economy in a sustainable and economically inclusive way, where the Agreement acknowledges the transition must include “*the creation of decent work and quality jobs in accordance with nationally defined development priorities*”².
- If we understand the AASB Options correctly, we favour Option 3 which appears to most closely resemble the principles we enunciate above i.e. we favour two ASRS Standards, by including in [draft] ASRS 1 the requirements relating to disclosures of governance, strategy and risk management, and in [draft] ASRS 2, replacing duplicated content with Australian-specific paragraphs cross-referencing to the corresponding paragraphs in [draft] ASRS 1 (which is the option adopted by the AASB in developing the [draft] ASRS 1 and [draft] ASRS 2 in this Exposure Draft).

Replacing duplicated content with references to the Conceptual Frameworks

Q2

- We do not agree with the AASB’s approach to make references to its Conceptual Framework for Financial Reporting (in respect to for-profit entities) and the Framework for the Preparation and Presentation of Financial Statements (in respect to not-for-profit entities) instead of duplicating definitions and contents of those Frameworks in [draft] ASRS 1 and [draft] ASRS 2 because we believe this is the opportunity to improve company reporting, rather than adopting the status quo.

Entities that do not have material climate-related risks and opportunities

Q3.

- We agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2 that an entity which determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity’s prospects to disclose that fact and explain how it came to that conclusion, because the whole purpose of the Standards are to increase transparency to consequently improve the reliability of reporting for user decision making.

Modifications to the baseline of IFRS S1 for [draft] ASRS 1

Sources of guidance and references to Sustainability Accounting Standards Board (SASB) Standards

Q4

- We strongly disagree with the proposal to remove from IFRS S1 and IFRS S2 the requirement for an entity to consider the applicability of SASB Standards and references to Industry-based Guidance on Implementing IFRS S2 issued by the ISSB developed based on SASB Standards, because:
 - We do not agree that just because the public consultation period was considered to be short for Australian stakeholders to appropriately consider the proposals that such a reason is a sufficiently robust justification for absolving Australian reporting entities from using the SASB Standards and Industry-based Guidance on Implementing IFRS S2 particularly when there is as yet no indication of what will be contained in the foreshadowed AASB ‘due process’.

¹ <https://www.ifrs.org/content/dam/ifrs/meetings/2023/november/issb/ap2d-feedback-summary-proposed-projects-on-sustainability-related-risks-and-opportunities.pdf>

² United Nations, *Paris Agreement* 2015, Preamble, https://unfccc.int/sites/default/files/english_paris_agreement.pdf

- We do not believe it is appropriate that the proposals in Appendix B to [draft] IFRS S2 be restricted to climate-related risks and opportunities, given, as we state above, the standards need to be sufficiently durable to cater for new areas of disclosure such as on nature risks and human rights risks; and
- Even though there is some truth that the SASB standards are US centric, the US is the largest global capital market with tentacles across the globe so Australia needs to be cognisant of US capital market developments and also, because the SASB Standards are currently the best available, and in the absence of seeing the AASB replacement, we concerned Australia could be left without any Standards on sustainability topics where disclosure will be essential.

Q6

- We do not agree that ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements because we want to ensure as much global disclosure reporting consistency as possible for comparability of company disclosed information.

Disclosing the location of the entity's climate-related financial disclosures

Q7

- We strongly support the Treasury proposal to require entities to include an index table in its annual report that displays climate-related financial disclosure requirements (i.e. governance, strategy, risk management, and metrics and targets) and the relevant disclosure section and page number, noting there was overall support for such an index table and that it would provide useful information to users. We submit this is essential information for investors. There is no persuasive evidence that it would be too onerous.

Cross-industry metric disclosures

Q12

- We agree that the cross-industry metric disclosures set out in paragraphs 29(b)–29(g) of IFRS S2 (and [draft] ASRS 2) will provide useful information to users about an entity's performance in relation to its climate-related risks and opportunities, and should be included in the AASB Standard, because we think that supply chain approaches to assessing and disclosing risk has strong merit, and helps identify risk vulnerabilities which is essential for an informed investor.

Cross-industry remuneration disclosure

Q13

- We agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 to disclose the information described in points (a) a description of whether and how climate-related considerations are factored into executive remuneration; and (b) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations, because these linkages are an important indicator of the quality of company governance and the extent to which climate risk is being objectively addressed by company executives.

[Draft] ASRS 1 General Requirements for Disclosure of Climate-related Financial Information

Materiality

- We are concerned about the narrow concept of materiality considered by AASB in ASRS 1 Appendix B (Application guidance) at Clauses B13 to B37 commencing on P34.

- For example, the references to “*The decisions of primary users relate to providing resources*” and “*economic resources*” does not appear to contemplate the workforce as a key input to transportation, production, distribution or consumption (creating both supply, and demand for an entity’s products or services), and the impact on the workforce from climate change, which can impact on matters such as:
 - The reliability of transport systems to ensure workers can attend for and participate in company operations;
 - The impacts of climate events on workforce health, including mental health; and
 - Energy and food supplies to households that sustain the workforce, to name just a few.
- Nor does it appear to contemplate the transition impacts on the workforce resulting in new job roles and consequential readiness of the workforce for new types of work requiring new or different skills, the employment impacts on workforce size and composition and associated costs e.g. redundancies, relocation, retraining, recruitment, access to housing in new production regions of an economy etc.
- Nor does it appear to contemplate workforce or skill shortages:
 - All these workforce impacts are material and in our view should be specifically referenced in the standard.

Interaction with law or regulation

- We submit that laws such as modern slavery laws and other human rights due diligence laws that are becoming more prevalent that require due diligence assessment of an entity’s supply chains and vulnerabilities, that are related, *inter alia*, to climate change, along those supply chains and which require disclosure through for example modern slavery statements, are useful tools for identifying material workforce risks. Accordingly we think those human rights due diligence laws should be referenced in the AASB Standards.

Double materiality

- We strongly urge the AASB to adopt the concept of double materiality. As AASB would be aware, the Global Reporting Initiative, perhaps the globe’s foremost authority on sustainability reporting metrics, has considered the appropriateness of the EU’s double-materiality concept (first adopted by the EU in its *Guidelines on Non-financial Reporting: Supplement on Reporting Climate-related Information* published in June 2019) and how it can be used with the GRI approach to materiality.³
- The EU Guidelines encourages companies to judge materiality from two perspectives:
 - The extent necessary for an understanding of the company’s development, performance and position and in the broad sense of affecting the value of the company; and
 - The environmental and social impact of the company’s activities on a broad range of stakeholders:
 - ❖ We think that the AASB should also adopt that double materiality approach to ensure its Standards are contemporary and take a broad view of what is material. This is particularly important in relation to social risk aspects of ESG performance.

[Draft] ASRS 2 Climate-related Financial Disclosures

Strategy and decision-making

- We note that ASRS 2 requires that an entity shall disclose information that enables users of general purpose financial reports to understand the effects of climate-related risks and

³ Global Reporting Initiative (GRI) *The double-materiality concept: Application and issues*, 2021, <https://www.globalreporting.org/media/jrbntbyv/griwhitepaper-publications.pdf>

opportunities on its strategy and decision-making. Specifically, the entity shall disclose, inter alia, information about:

- Current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities:
 - ❖ We say resource allocation should specifically mention the workforce;
- Current and anticipated direct mitigation and adaptation efforts (for example, through changes in production processes or equipment, relocation of facilities, workforce adjustments, and changes in product specifications):
 - ❖ Again, this clearly includes the workforce, which is central to production processes, introduction of new technologies and business processes, covering a wide array of workforce risks that are explicitly material:
 - ✓ We strongly urge AASB to be more expansive when referring to workforce – it is not just workforce adjustments that creates material risk, but workforce contributions to production and productivity, and risk associated with violations of human and labour rights;
- Any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies:
 - ❖ Again, the workforce is central to both risk and opportunity in transition plans and in our view the Standard needs to more adequately reflect that fact. We refer the AASB to two key references that support our contention:
 - ✓ The Climate Act 100+ *A Need for Robust Just Transition Planning* of June 2022 which includes its Just Transition Disclosure Indicators;⁴ and
 - ✓ The ACTU Guidance, *Securing a Just Transition Guidance to assist investors and asset managers support a just transition* of February 2021⁵.

Climate resilience

- We urge the AASB to include in Clause 22 several new subclauses, as follows:
 - In Clause 22(a)(iii) a new point 2 along the following lines:
2. the availability and capabilities of the entity's existing and future human resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks and to take advantage of climate related opportunities;
 - In Clause 22(b)(i)(7), include additional words so it reads as follows:
(7) what scope of operations the entity used in the analysis (for example, the operating locations and business units and the capabilities of the workforce in those locations and business units used in the analysis);
 - In Clause 22(b)(ii)(3) add words so it reads as follows:
(3) national-or regional-level variables (for example, local weather patterns, demographics, land use, infrastructure and availability of natural and human resources);

Climate-related metrics

- We submit that Clause 29 be enhanced by inclusion of a new 29(e) and (f) as follows:
29(e) climate-related workforce risks—the size and percentage of the workforce vulnerable to climate-related physical risks; and

⁴ Climate Action 100+ *A Need for Robust Just Transition Planning* of June 2022: *Exploring why a just transition is important for investors and key findings from the Climate Action 100+ just transition beta indicator*, <https://www.climateaction100.org/news/a-need-for-robust-just-transition-planning/>

⁵ ACTU, *Securing a Just Transition: Guidance to assist investors and asset managers support a just transition*, February 2021, https://www.actu.org.au/wp-content/uploads/2023/10/securing-a-just-transition_feb2021-2.pdf

29(f) climate-related workforce opportunities—the size and percentage of the workforce aligned with climate-related opportunities;

Appendix B Application guidance

Skills, capabilities and resources available

- We propose inclusion of a new Clause B8 as follows:
B8 When considering availability of and access to external resources regarding workforce issues, the entity should consider the expertise of employer/industry associations and trade unions.

[Draft] ASRS 101 References in Australian Sustainability Reporting Standards

Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

- We support the AASB conclusion that the perceived benefits of aligning to the baseline of IFRS S2 outweigh the potential unintended consequences of introducing remuneration reporting requirements outside existing regulatory requirements, because from a workforce perspective, users are vitally interested in whether executive remuneration that is linked to climate or other sustainability is encouraging or discouraging ‘greenwashing’.

Current financial effects

- We are concerned that the AASB is relying on the April 2029 AASB and the AUASB issued a joint bulletin *Climate-related and other emerging risks disclosures: Assessing financial statement materiality using AASB/IASB Practice Statement 2* to assist entities applying materiality judgements in relation to climate-related and other emerging risks. That Bulletin, while containing helpful guidance, does not make a single reference to workforce risk or risk associated with non-conformance with internationally accepted human and labour rights obligations as set out in globally accepted norms and frameworks such as the International Bill of Human Rights (consisting of the Universal Declaration of Human Rights and the main instruments through which it has been codified: the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights), coupled with the principles concerning fundamental rights in the ILO core conventions as set out in the Declaration on Fundamental Principles and Rights at Work. These are the benchmarks against which the human rights impacts of business enterprises can be assessed, and are fundamental to the United Nations Guiding Principles on Business and Human Rights which reporting entities applying the AASB Standard are obliged to comply with.
- More recent international developments on corporate sustainability reporting are also relevant, such as:
 - The *European Directive 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU*, regarding corporate sustainability reporting are also relevant⁶
 - The *European Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards, particularly ESRS S1 reporting on a company’s ‘Own Workforce’ and ESRS S2 reporting on a Workers in the (company’s) Value Chain*

⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>. See in particular clauses 9, 28, 29 31, 32, 45, 49 in the introduction; clause 1 in the Amendments to Directive 2013/34/EU; and clause 2 in ‘Chapter 6a Sustainability Reporting Standards.

are also relevant to determining materiality, and acknowledge human and labour rights as a material risk.⁷

⁷ https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202302772 P164 (ERS 1) and P202 (ERS 2)