

14 November 2024

Sub 7 - ASSA5010

Auditing and Assurance Standards Board
Collins St
MELBOURNE VIC 3000
Via online portal

To whom it may concern,

Re: Comment Letter – Exposure Draft: Proposed Australian Standard on Sustainability Assurance - ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001

GrainGrowers welcome the opportunity to comment on the Proposed Australian Standard on Sustainability Assurance - ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001.

GrainGrowers is a national organisation working to enhance the profitability and sustainability of Australian grain farmers. We achieve this through our focus areas of policy and advocacy, grower engagement, thought leadership and active investment in future focused activities for all growers. Australian growers are at the heart of all that we do and the focus of our work.

The exposure draft developed by the Auditing and Assurance Standards Board (AASB) requests comment on auditing and review requirements for disclosure topics in the proposed AASB S2. The following pages outline GrainGrowers' response to relevant consultation questions provided in the discussion paper.

GrainGrowers looks forward to working with the AASB on this emerging topic. Should we be able to provide further assistance or if there are any enquiries relating to this submission please contact Rebecca Hurst - Policy Officer, Sustainability and Natural Resource Management at rebecca.hurst@graingrowers.com.au.

Yours sincerely,



Zach Whale
General Manager, Policy and Advocacy

Consultation Questions

1. Do you agree that the audit and review requirements for disclosure topics in the proposed AASB S2 are appropriate, taking into account:

- a. Their relative importance of assurance to users of the information;
- b. Their interconnectivity;
- c. The likely cost of assurance; and
- d. The readiness of Group 1, 2 and 3 entities' systems and processes.

GrainGrowers does not agree that the audit and review requirements are appropriate. Limited and reasonable assurance timelines for Scope 3 emissions should be delayed until appropriate methodologies have been developed and incorporated into AASB S2. This is because existing greenhouse gas (GHG) calculation methodologies may misrepresent the grain sector, resulting in low accuracy data which will lessen the relative importance of assurance to users of the information.

1. *Readiness of the supply chain*

Supply chain partners of in-scope entities are not prepared for limited and reasonable assurance of Scope 3 emissions.

While the proposed audit and review requirements aim to phase in requirements gradually, requiring limited assurance of Scope 3 emissions from the second year of reporting and reasonable assurance from the fourth year of reporting, may not be appropriate nor sufficiently consider the unique challenges of the agricultural sector as a major supply chain partner of Group 1, 2 and 3 entities.

Grain growers themselves are unlikely to be an in-scope entity. Rather they will be primarily impacted through the Scope 3 reporting requirements of supply chain stakeholders including bulk grain handlers and financial institutions that fall under Group 1, 2 and 3.

There are three key ways in which the proposed audit timelines could negatively impact the grain sector:

1. **In the absence of a method required by a jurisdictional authority that provides Australian-specific guidance for agriculture, the proposed assurance timelines may result in unintended outcomes.** Specifically, if the use of generic Tier-1 emission factors is adopted and the ability to account for CO₂ removals is prevented, the carbon footprint of Australian grains will be overestimated, with potential trade implications given growing sustainability expectations of domestic and international markets. This impact is further discussed below.
2. **Overinflated Scope 3 emissions assured data may hinder the grain sector's ability to accurately market grain to customers such as bulk handlers that have set corporate emission reduction targets.** Inaccurate assured Scope 3 emissions data could place Australian growers at a competitive disadvantage, despite Australia having among the lowest emissions intensity grain production globally compared to other major growing regions.

- 3. Overestimated data of limited accuracy will have low relative importance to users of the assured information including financial institutions.** Reporting disadvantageous, unrepresentative data on agricultural products could mislead stakeholders rather than aid meaningful decision making.

1.1. Inaccurate Scope 3 emissions data will result in low value assured information

Current methodologies accepted under AASB S2 could result in inaccurate Scope 3 emissions data for the agricultural sector. Assurance timelines should be delayed until Australian-specific methods have been developed for agriculture and those methods have been incorporated into the standard.

Paragraph 29 (ii) of AASB S2 states that the entity shall ‘measure its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions’.

It is understood that the Department of Climate Change, Energy, the Environment and Water (DCCEEW) are leading a project to develop, publish and maintain voluntary emissions estimation and reporting ‘standards’ for agriculture, fisheries and forestry industries. However, any guidance developed is not intended to be mandatory and therefore will not satisfy the AASB S2 stipulation of ‘a method required by a jurisdictional authority’.

As detailed by Dr Maartje Sevenster and Annette Cowie in their paper ‘Agriculture and the reach of mandatory GHG reporting’¹, assurance of Scope 3 emissions within the proposed timeline poses several issues for grain growers if the GHG Protocol methodology is strictly imposed:

- Given there is no existing reporting requirement by a jurisdictional authority and that the National Greenhouse and Energy Reporting Scheme (NGERS) does not cover the agricultural sector, agricultural emissions will need to be quantified using the GHG Protocol.
- There is currently no Australian specific guidance for companies having to follow the GHG Protocol.
- The GHG Protocol does not prevent the use of Tier-1 emission factors which are generic methods based on global or regional averages and are intended for use at a national level only.
- The use of Tier-1 emission factors could disadvantage the grain sector. The difference between Tier-1 and Tier-2 approaches to nitrous oxide emissions from Australian wheat cultivation is significant with Tier-1 emission factors overestimating the carbon footprint of wheat (Figure 1a).
- Under the GHG Protocol, CO₂ removals from activities like increased soil carbon sequestration can’t be reported as part of Scope 3 emissions. This creates an imbalance, as emissions and removals in agricultural systems, particularly from cropping, are closely connected and can be jointly impacted by management practices. Excluding removals provides an incomplete picture of the GHG impacts of grain growing (Figure 1b).

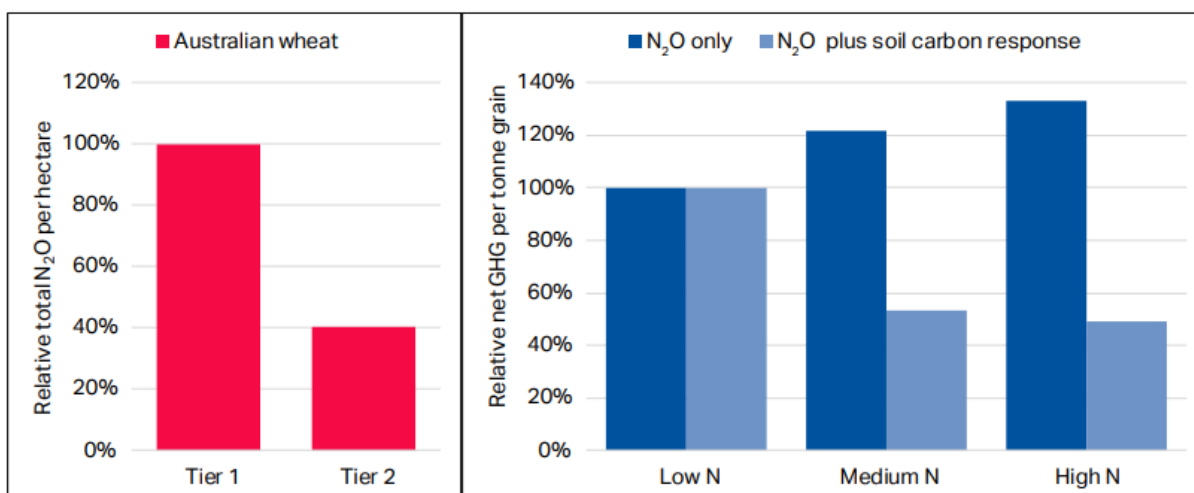


Figure 1: a) The effect of the use of Tier-1 versus Tier-2 emissions factors (EF) on N₂O emissions from wheat cultivation in Australia (left). b) Comparison of three scenarios with different fertiliser rates (Sevenster et al. 2022) for N₂O emissions only, and when including both N₂O and CO₂ emissions/removals due to change in soil carbon (right).

Source: https://www.farminstitute.org.au/wp-content/uploads/2024/10/CSIRO_Sept2024_occasional-paper.pdf

1.2. Shared challenges across industries

Concerns regarding the appropriateness and timing of audit requirements for Scope 3 emissions were echoed by representatives from the recycling and construction sector during the Auditing and Assurance Standards Board (AUASB) roundtable discussion on 30 October 2024. Participants from this industry noted that strict application of the GHG Protocol and NGRS methodologies present challenges for accurately capturing emissions data for recycled materials. It was further noted that **if the foundations for Scope 3 reporting remains problematic, it will significantly compound the difficulty of achieving fit-for-purpose assurance for these disclosures in the proposed timeline.** Addressing the reporting methodological issues prior to mandating assurance requirements for Scope 3 is critical due to its implication across multiple industries.

1.3. Readiness of growers

According to GrainGrowers' 2024 Annual Policy Survey, few grain growers have undertaken carbon accounting training or measured their GHG emissions. Of the 663 growers who participated in the survey, only 16% had undertaken carbon accounting training. Of those that had undertaken training, only 13% had measured their GHG emissions with close to half having done so through a consultant or commercial organisation. **The low readiness of the supply chains of in-scope entities, including primary producers like grain growers, suggests they may struggle to provide high-quality Scope 3 emissions data required for accurate assurance that would prove useful for end users.**

2. *Readiness of in-scope reporting entities*

ASIC reports that Scope 3 targets of the ASX200 companies are under-represented, with only 29% of companies setting some form of Scope 3 target². However, only half of these have submitted for verification, or verified, their targets with the Science-based Targets initiative (SBTi), meaning the remaining companies have no way to independently validate that their Scope 3 targets are based on credible science and aligned to meet the goals of the Paris Agreement. This lack of robust target setting and validation processes indicates that many purchasers of Australian grain may not have adequately developed systems and data management processes to comprehensively account for Scope 3 emissions of their supply chains and may instead pass the cost of accounting onto grain growers.

A large Australian bulk handler identified in their 2023 Sustainability Report that a priority action for the year was to refine Scope 3 inventory methodologies to improve accuracy, and off the back of this work has planned to submit their emission reduction targets for verification to the SBTi in 2024³. While the grains sector has been proactive in improving Scope 3 reporting, it is still in its infancy and the agricultural sector needs more time to develop fit-for-purpose accounting methods and build reporting capacity before assurance requirements are mandated for Scope 3 emissions. **Pushing out the timeline for assurance requirements would enable a collaborative approach to addressing current limitations.**

3. *Readiness of the auditing profession*

As of October 2023, there are approximately 3,200 registered company auditors in Australia according to Australian Securities and Investments Commission (ASIC)⁴. ASIC has identified 6,000 entities will come under scope of the new mandatory climate disclosure regime⁵, however it is unclear what degree of preparedness the profession has undertaken to prepare for this new area of disclosure.

There is a risk of a significant bottleneck developing if the majority of these auditors need to provide assurance services for Scope 3 reporting. The number of auditors registered to conduct GHG audits under the NGERs is far more limited at only 78⁶. However, Scope 3 emissions are excluded from the NGERs framework. Therefore, the existing pool of qualified professionals may not be adequately prepared to meet the expanded requirements of the proposed standards without substantial upskilling given that Scope 3 assurance presents a new area of practice. It is also worth noting that auditors will likely be concentrated within a limited number of firms.

An extended timeline for Scope 3 assurance requirements could help address this capacity risk within the auditing sector and better enable practitioners to service the growing demand for climate-related financial disclosure reporting as understanding and methodologies continue to evolve. This would allow time for upskilling without compromising assurance quality in the initial years of implementation.

4. *Opportunities to address challenges*

Overall, the proposed assurance timelines do not sufficiently consider agricultural reporting challenges. Sectoral guidance is needed to ensure accurate and balanced Scope 3 data for users of the assured information prior to imposing audit requirements. An extension on Scope 3 emissions assurance could enable appropriate systems and methodologies to be established.

4.1. *Allowing the use of robust sector-specific guidance once developed through the expansion of Paragraph 29(a)(ii)*

Prioritisation needs to be given to the collaboration between government, AUASB, agribusinesses and auditors to establish clear, Australian-specific agricultural sector guidance and accounting methods for Australian agriculture. The 'standards' currently being designed by DCCEEW for agriculture are not intended to be made mandatory and therefore will not satisfy AASB S2 Paragraph 29(a)(ii), which specifies either the GHG Protocol or a method required by a jurisdictional authority. Therefore, appropriate methodologies will need to be developed and directly incorporated into the text of AASB S2 to ensure accurate reporting for agriculture.

Inclusion of an accounting method specific to Australian agriculture will help ensure disclosures are representative of Australian agriculture without disadvantaging early reporters and their supply chains including grain growers. Accurately accounting for variability in local climatic and production conditions is critical for stakeholders assessing supply chain sustainability efforts using assured information. If generic methodologies result in largely inaccurate or overstated emissions data, this diminishes the relative importance of assurance processes for users of the information.

4.2. *Maintain the phased approach but delay assurance timelines for Scope 3 emissions to allow for capacity building and development of fit-for-purpose methodologies*

GrainGrowers recommends that assurance requirements for Scope 3 emissions be deferred to allow time for the development of robust Australian-specific agricultural sector guidance and methodologies. Maintaining the phased approach across multiple years of reporting for limited to reasonable assurance should remain as this will help address challenges with readiness and capacity.

Delayed timelines and gradual phase-in for Scope 3 emissions assurance will better enable supply chain readiness to develop. Agricultural businesses require additional time to closely collaborate with key supply chain partners including grain growers to refine calculation methodologies and strengthen data quality. A rushed implementation risks placing an unfair burden on farmers by prioritising primary data reporting at a stage where reporting entities have not established fit-for-purpose tools or standard processes. As the costs of reporting will be borne by growers, while the benefits of disclosure accrue to corporate reporting entities, a balanced approach is needed.

Australian-specific agricultural methodologies and adaptive timelines are needed to ensure agricultural GHG disclosures are fit-for-purpose, representative of local conditions and allow growers to credibly demonstrate sustainable practices while also ensuring the accuracy of the assured information for users.

4.3. *Distinguishing assurance based on estimation methods employed*

Distinguishing assured data using activity-specific Tier-2 or 3 emission factors, rather than generic Tier 1 factors will build reliability and ensure disclosures are meaningful to users of assured information. Without this delineation, Scope 3 emissions from agriculture could be overestimated, unfairly disadvantaging the grain sector and its supply chain partners

by not adequately recognising sustainability efforts. Defaulting to generic Tier-1 factors, which is not prevented under the current methodologies allowed under AASB S2, risks misrepresenting the carbon footprint of Australian agriculture and the environmental performance of local production systems.

Alternatively, explicitly requiring the use of Tier-2 or 3 emission factors where available will improve accuracy of reporting for agricultural activities, providing increased relative importance of assurance to users of the information. Ultimately, to promote representative, location-based accounting, regional emission factors for Australian agriculture need to be developed.

The inclusion of Australian-specific agricultural methodologies that allow for balanced reporting of both emissions and removals from cropping activities will more fully reflect on-farm management practices. Under the GHG Protocol, removals can only be reported in Scope 3 emissions under very strict traceability conditions. This asymmetry fails to appropriately account for the integrated nature of agricultural activities, particularly cropping systems, where management practices can simultaneously influence carbon sources and sinks.

As suitable methods for transparently accounting for both emissions and removals are formalised within reporting standards, assurance processes should clearly delineate between methodologies employed to maintain the importance of the assurance to users.

Together, these measures can strengthen the integrity and value of emissions disclosures over time as reporting entities and their supply chain partners gain experience applying climate-related standards to agricultural commodity production.

9. What are the costs and benefits of the proposals, whether quantitative or qualitative and whether financial or non-financial? The AUASB is particularly seeking information on the nature and, where possible, estimated amount of any expected incremental costs of the proposals.

1. *Scope 3 emissions assurance should not place undue burden on grain growers*

GrainGrowers notes that Paragraph B39 of AASB S2 states an entity should use all reasonable information without undue cost or effort, however Paragraph B47 states that an entity shall prioritise the use of primary data, which is data obtained directly from the value chain.

Mandating the assurance of Scope 3 emissions with a prioritisation of primary data collection from the second year will be burdensome and may impose significant costs for grain growers as standardised tools and methodologies for the agricultural sector have not been developed or incorporated into the standard. As noted earlier, DCCEEW is in the process of developing voluntary 'standards' for agriculture, however these are not intended to be made mandatory and therefore will not satisfy Paragraph 29(a)(ii) as it will not be required by a jurisdictional authority.

This may raise the costs of data measurement, collection and reporting for growers as they do not have standardised approaches to follow. Integrating farm-level production and input usage data with the type of information required for emissions accounting and reporting may require upgrades to on-farm record keeping systems and software. This places costs on growers for investing in new technologies and training to capture the relevant data streams in a compatible format.

Any costs that end up being imposed on grain growers through mandatory reporting requirements are unlikely to provide direct benefits back to the grower. Rather, the advantages of enhanced climate-related disclosure are realised upstream within the broader corporate reporting chain as entities meet their obligations under the proposed regime. The unintended consequence of growers experiencing undue cost burdens should be avoided given they have the least ability to influence downstream operational practices or strategic decision making compared to industrial processors and investors higher up in supply chains.

In summary, while costs are an inevitable reality of adopting climate-related disclosure standards, placing disproportionate burdens on grain growers through the prioritisation of primary data collection and Scope 3 emissions assurance should be avoided. Establishing robust and practical methodologies that reflect Australian agriculture accurately under AASB S2 must take priority to reduce compliance costs and streamline data collection and sharing processes between growers and reporting entities.

2. *Estimated benefits for grain growers*

Early on, the main beneficiary of assurance requirements will be the finance sector via their increased ability to manage climate-related risk in their investment portfolios. Over the longer term some benefits for grain growers may materialise as a result of providing data to supply chain partners for the limited and reasonable assurance of Scope 3 emissions. These are hypothesised below:

- Free/low-cost data validation – Growers may gain independent third-party verification of their operations' emissions profile without direct financial outlay as the reporting entity in their supply chain will bear the cost of limited or reasonable assurance of their Scope 3 emissions assuming suitable systems and processes are in place.
- Continued reporting assistance – Reporting entities may provide ongoing support to streamline future data collection/reporting requirements as methodologies evolve, ultimately building the capacity of grain growers and increasing on-farm resilience and capability.
- Shared systems investment - Infrastructure setup costs may be distributed amongst a wider user base if software solutions are co-developed with supply chain partners to benefit all stakeholders long term. This could improve the interoperability of farm management software with incoming GHG accounting platforms. GrainGrowers notes that the Department of Agriculture, Fisheries and Forestry (DAFF) is leading a project to digitise the voluntary 'standards' being developed by DCCEEW, for incorporation into new or existing third-party farm-level GHG emissions calculators. Consideration will need to be given to how such tools integrate with farm management software.
- Peer learning opportunities - Increased exposure to best practices and solutions identified through assurance processes will be applicable industry-wide, not just for individual farms which could improve benchmarking opportunities for growers.
- Reduced administrative burden – May occur where reporting entities take ownership of data management to ensure a consistent corporate approach that reduces grower effort in documentation/record keeping over the long run.
- Group negotiation potential - Larger grower collectives could leverage supply chain relationships when seeking services/resources to help members measure and manage emissions competitively.

- Recognition of sustainable farm practices - Accurate quantification of on-farm carbon sequestration and emission reduction achievements may provide recognition of sustainable land management practices. Participation in assurance activities may provide growers with an opportunity to better market their products and access customers that increasingly demand supply chain transparency on carbon footprint impacts and stewardship measures.

3. *Case study – costs and benefits of emissions reporting to supply chain partners*

As part of an Australian supermarkets' efforts to measure the carbon footprint of its supply chain, a GrainGrowers' member, who is a mixed farmer, was asked to provide detailed information about their farming operations. This case study outlines the costs and benefits this farmer experienced in compiling the requested data, which may be used to inform the likely impacts on the grain sector more widely under the proposed Scope 3 emissions assurance requirements.

3.1. *Scope 3 Data Request*

The supermarket asked the farmer to complete a comprehensive survey covering various aspects of their operation, including:

- Detailed records on soil and vegetation management, including carbon offset projects and sequestration
- Specifics on water use, transport, energy consumption, and other purchased inputs
- Various operational metrics

Much of this data was information the farmer already collected as part of their normal farm management. However, data manipulation was required to make the information useful as will likely be the case for assured Scope 3 emissions data. Additionally, the supermarket estimated certain data points that disadvantaged the farmer. The farmer noted that the estimated data diluted the accuracy of the overall carbon footprint, and that the results may no longer benefit them as sustainable practices employed in their business were not factored in.

3.2. *The Time and Cost Burden*

Collating the full dataset was estimated to take the farmer 4.5 days of work due to a requirement to validate the data's accuracy with farm records. This represented a significant opportunity cost, valued at around \$7,600 based on the farmer's time being worth \$200 per hour. There were also travel requirements with mileage not included in the estimated cost.

The supermarket initially gave the farmer just 8 business days to provide the information, which they were unable to meet. Only smaller suppliers were able to comply within the tight timeframe due to more straightforward operations.

The farmer does not expect to incur any additional costs to provide emissions data in the future. They had already invested in data management software to support their business decision-making, not for compliance purposes.

However, this may not be the case for many other farmers who are using more basic farm management systems. For these farmers, compiling the required emissions data could involve a

significant amount of time-consuming data manipulation, or investment in more sophisticated software, increasing the overall cost.

3.3. Potential Benefits and Concerns

The farmer highlighted dual benefits of engaging in the process:

1. Collective source of competitive advantage for farmers supplying the supermarket as they will have a substantially lower emissions profile compared to other farmers.
2. Having a 'lower emissions profile' could make the farmer's business more attractive to the supermarket so they would be well placed to increase their supply which is often hard to achieve.

However, they were also concerned about the supermarket potentially using the detailed operational data to favour larger, more aligned suppliers in the future. The farmer also felt uneasy about providing so much sensitive business information to a third party with limited local market presence and understanding of the market.

Overall, this case study demonstrates the potential time and cost burden placed on grain growers to meet Scope 3 emissions assurance requirements to satisfy reporting entities obligations under the proposed requirements. It highlights the need for delayed timelines for assured Scope 3 emissions data to allow for improvements in reporting entities' systems and processes, as well as the importance of Australian specific agricultural methodologies to ensure consistency and accuracy that doesn't misrepresent the agricultural sector. Further, costs may accrue across multiple supply chain data requests unless standard methodologies are employed.

Concluding remarks

This comment letter has outlined several concerns regarding the potential negative impacts of proposed audit timelines on grain growers with regards to providing Scope 3 emissions data.

GrainGrowers does not agree that the audit and review requirements are appropriate as currently proposed. Limited and reasonable assurance timelines for Scope 3 emissions should be delayed until appropriate methodologies have been developed and incorporated into AASB S2. This is because existing GHG calculation methodologies may misrepresent the grain sector, resulting in low accuracy data which will lessen the relative importance of assurance to users of the information.

An extended timeline for Scope 3 assurance requirements could help address the capacity risks within the auditing sector and better enable practitioners to service the growing demand for climate-related financial disclosure reporting as understanding and methodologies continue to evolve. Prioritising the development of Australian-specific agricultural methodologies that allow for balanced reporting of both emissions and removals will be critical to ensure the integrity and value of emissions disclosures over time. Together, these measures can strengthen the value of emissions reporting for the agricultural sector and its supply chain partners.

References

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