UniSuper

Assurance over Climate and Other Sustainability Information

UNISUPER SUBMISSION TO THE OFFICE OF THE AUDITING AND ASSURANCE STANDARDS BOARD. 3 MAY 2024.

UniSuper welcomes the opportunity to provide feedback to the Auditing and Assurance Standards Board (AUASB) consultation on the Assurance over Climate and Other Sustainability Information.

UniSuper has a long history of integrating environmental, social and governance considerations (ESG) across our investments and manages over 70% of the funds in-house. We have been publishing our own climate related reporting aligned to the Task Force on Climate-related Financial Disclosures (TCFD) since 2018. Our report *'Climate risk and our investments' (Climate Report)*, now in its 6th edition, outlines how we will play our part in contributing to the goals of the Paris Agreement and provide for greater retirement outcomes for our members.

For the past two years, we have been among a small group within the superannuation industry that has obtained limited assurance over two metrics disclosed in our Climate Report: the carbon intensity of our investment portfolio and the assessment of our look-through exposure to fossil fuels.

Accordingly, we believe we can provide significant insight into the role of assurance relating to climate reporting from the context of a superannuation fund as preparer under the reporting regime. Importantly within this context, as a superannuation fund, we have a fiduciary duty to act in the best financial interest of our members.

Under the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 to the Senate Economics Legislation Committee tabled on 27 March 2024, UniSuper as a Registrable Superannuation Entity (RSE) would be considered a Group 2 reporter.

Please contact Lou Capparelli (Lou.capparelli@unisuper.com.au) or Jodie Barns (Jodie.barns@unisuper.com.au) if you would like further information.

Key Feedback

UniSuper supports the establishment of a mandatory climate reporting standard and accompanying guidance to enable the assurance on quantitative metrics.

The proposed coverage and level of assurance for climate disclosures appears disproportionate to the level of assurance required for other financial statements. For example, financial statements do not require assurance on qualitative disclosures such as strategy and governance. The level and coverage of assurance must be meaningful, value adding and proportionate. To enable this, we expect AUASB to provide guidance equivalent to that provided by Australian Accounting Standards for financial statements.

We also encourage a review to the timeline for phasing in reasonable assurance. It is impractical to require reasonable assurance of metrics, especially qualitative metrics, where standards and frameworks are in draft, new, or immature and this should be considered in AUASB's timeline.

UniSuper's Recommendations

- Assurance should be implemented after appropriate reporting standards and guidelines for RSEs are developed, alongside accompanying methodologies for metrics. Until such standards are established, assurance requirements for RSE's should be restricted to limited assurance for Scope 3 financed emissions.
- Assurance requirements should only be required for quantitative climate-related financial metrics.
- Beyond metrics, assurance requirements should be included only when it has been determined that it would materially add value to the end user. We do not believe it is proportionate or value adding to require assurance over qualitative disclosures such as governance and strategy given these do not change year-to-year.
- Voluntary disclosures in annual or other periodic reports, including climate disclosures that are not required by the final AASB reporting framework should not have assurance requirements. Instead AUASB should encourage voluntary assurance from entities for these disclosures.
- The timeline for transitioning from limited to reasonable assurance should reflect the challenges for reporting and obtaining assurance against draft, new, or immature standards and methodologies.

We believe this strikes a fair balance between ensuring metrics are reported accurately whilst not creating undue cost and burden that is greater than the value add it provides to the end user. This is also consistent with International Accounting Standard Board (ISSB) which emphasised the importance of creating a reporting framework that is capable of assurance, rather than mandating assurance for a still to be established framework.

UniSuper’s experience obtaining limited assurance for climate metrics.

UniSuper has undertaken voluntary, limited assurance for two climate metrics since February 2023. In our experience, assurance of select metrics can improve confidence in calculation processes and outputs but can be costly and time consuming, especially when established, publicly available criteria or methodologies are unavailable.

Given the significant time and cost of undertaking assurance, we used a staged approach, starting with financed emissions (in February 2023) and broadening to include fossil fuel look through exposure in June 2023 (a secondary metric included in our *Climate Report*). Using this staged approach, we were able to identify opportunities to improve our process to be more efficient and cost effective.

Unlike for financial accounting, climate and sustainability reporting standards are new and incomplete which adds cost, complexity and contributed to delays in publishing our report. For example, some standards are publicly available, like Partnership for Carbon Accounting Financials (PCAF) methodology for financed emissions, but even these are incomplete and require interpretation for specific scenarios. For assurance of voluntary metrics (like UniSuper’s fossil fuel look through calculation) there is no public, industry standard methodology available. It required pre-assurance of our internally developed methodology, before completing assurance of the reported metrics. The lack of established, publicly available standards added significant time and cost to the assurance process.

We believe there are several benefits for obtaining limited assurance across quantitative metrics including:

- Development of procedures and documentation that supports consistent reporting and underpins the due diligence process which are required in the assurance process.
- Strengthened internal confidence in reported metrics, which enhanced communication with stakeholders.

However, there are several limitations that are important to consider:

- The absence of standards and frameworks for sustainability metrics increases the cost and complexity of assurance.
- The absence of standardisation and varying quality of data provided by third parties increases the burden of due diligence onto RSEs, increasing cost, time, and complexity of assurance.
- Assurance agencies are actively developing their sustainability assurance services, collaborating with clients to refine and standardise processes for maximum efficiency.

Response to specific AUASB consultation questions

Questions 1 and 3

The choice between limited and reasonable assurance should be guided by the availability and maturity of relevant guidance and frameworks against which assurance can be obtained. For RSEs, the absence of industry accepted frameworks for disclosure, including finance-related metrics, makes preparing disclosures and obtaining reasonable assurance time consuming and costly. For areas where guidance and frameworks are qualitative or still under development, reasonable assurance is not recommended.

In our experience it takes 2-3 months to complete the calculation and assurance process. RSEs need sufficient time to collect and analyse information provided by companies and execute internal reporting before publicly disclosing information. This is to ensure confidence in the information, a reasonable basis for publication and where relevant, time to go through the assurance process. This approach aims to ensure members are provided accurate and useful information.

It needs to be recognised that the correct sequencing of information and publication is important when considering assurance timelines. Because RSE’s are simply aggregators of underlying investee company data, we suggest AUASB consider requiring reasonable assurance to the company's that RSE's rely on first, so the data is credible and trustworthy before the reasonable assurance is mandated for RSE's.

Based on our experience, it takes multiple reporting cycles to develop sufficient processes to prepare efficiently the information needed to gain limited assurance. The assurance phasing proposed in Attachment 1 of the AUASB consultation does not provide sufficient lead in time for entities to develop systems and processes to gain limited assurance, before transitioning to reasonable assurance (in areas of quantitative disclosure where publicly available industry accepted frameworks exist). Entities will take on the burden of “practice” assurance at their own cost, increasing the already burgeoning cost of assurance.

Question 4

Many organisations have additional voluntary disclosures which may sit outside the final Australian Sustainability Reporting Standards (ASRS) reporting framework. Such voluntary disclosures in annual or other periodic reports, including climate disclosures that are not required by the final AASB reporting framework, should not have assurance requirements.

Voluntary disclosures for an RSE’s investment portfolio are intended to give members additional information and context. However, these disclosures may differ between reporting periods and generally do not have established frameworks. Additional assurance requirements should only be considered once industry-specific metrics are developed and fall within the coverage of mandatory reporting requirements.

For voluntary disclosures AUASB should instead encourage voluntary assurance from entities for these disclosures. For example, where UniSuper has internally developed methodologies for quantitative metrics (e.g., fossil fuel look through analysis) we have sought voluntary limited assurance to provide confidence on processes and outputs to our members before publishing the voluntary disclosures.

Question 13

A significant obstacle for both aligning reporting and obtaining assurance is the absence of a relevant framework with RSE specific guidance. Until such guidance or an RSE specific standard are developed obtaining assurance is challenging and time consuming.

AUASB is encouraged to provide guidance on materials that might be referred to by the auditor in assessing disclosures. Wherever possible, auditors should consider publicly available, industry established frameworks against which assurance can be measured. AUASB should consider the scope of assurance standards taking into account these publicly available frameworks, and the maturity and limitations of the frameworks.

Where publicly available standards are unavailable or incomplete, disclosers need to develop internal methodologies for calculation of quantitative metrics. Should these methodologies need to be included in the scope of assurance, in addition to assurance of the reported metrics, it would increase the complexity and cost of the process significantly. Further, reliance on unavailable or incomplete methodologies will lead to inconsistencies in application across industry. AUASB should consider the intended purpose of these disclosures and recommend a methodology which will allow comparability and consistency in reporting across industry.

Question 17

AUASB should consider providing guidance on the treatment of data provided by third-party data vendors used in the development of quantitative sustainability disclosures. UniSuper’s sustainability disclosures cover >2500 individual entities that sit outside of our operational control. It is not possible to collect data for each of these entities and therefore we are fully reliant on data from investee companies and third parties to report and collect data accurately. As an asset owner and global investor these entities may not be in regions where mandatory reporting or assurance is required.

Based on current assurance practices, RSEs purchasing data from a third party are required to verify and gain assurance on this purchased data, despite providers not being required to publicly disclose methodologies. Reporting and assurance guidelines for third-party data providers should be created as a priority by AUASB. Duplication of regulation should be avoided, relying on existing systems where possible, for example, requirements of AFS licensees.