

22 November 2024

Sub 28 - ASSA5010

The Chair  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007

By email: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

Dear Chair

**RE: Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001 (Exposure Draft 02/24)**

### Introduction

The Financial Services Council (**FSC**) welcomes the opportunity to provide feedback on the Auditing and Assurance Standards Board's (**AUASB**) proposed Australian Standard on Sustainability Assurance ASSA 5010.

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services.

Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, financial advice licensees and investment platforms. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses. The financial services industry is responsible for investing more than \$3 trillion on behalf of over 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange, and is one of the largest pools of managed funds in the world.

The FSC notes it is supportive of the climate-related financial disclosure regime. Indeed, FSC members will be in the unique position of being both reporting entities and primary users of sustainability reports. Against this background, the FSC expresses its concern with::

1. subjecting the financial services sector to an unnecessarily costly level of assurance;
2. confusion associated with the staged implementation process; and
3. a lack of transparency on the scope of work that auditors should be undertaking at different levels of assurance.

The FSC recommends that the AUASB address this by:

1. revisiting the question of whether reasonable assurance is required for sustainability reports, particularly in the case of fund managers and superannuation funds;
2. simplifying its assurance implementation strategy; and
3. providing further guidance on the scope of work required to be undertaken at each level of assurance.

## Comments on ASSA 5010

### *Cost*

The FSC acknowledges the commitment of the Government, the Australian Accounting Standards Board (**AASB**) and the AUASB to ensuring Australia is part of a global climate disclosure framework. The FSC submits it is important to ensure that Australia's regime is both effective and as efficient as possible.

To this end, the FSC notes that in members' experience, there is a very large difference in the cost of limited versus reasonable assurance. While the FSC supports the climate-related financial disclosures regime, we respectfully suggest that the AUASB reconsider its approach to requiring reasonable assurance of sustainability reports, at least insofar as it affects organisations such as fund managers and superannuation funds. This is because fund managers and superannuation funds have sufficiently low scope 1 and 2 emissions that this information is unlikely to be material information to users of their financial accounts, while the costs of undertaking reasonable rather than limited assurance of them will be high.

Furthermore, the scope 3 emissions of fund managers and superannuation funds will be relatively impractical to efficiently audit until such a time the disclosure regime is fully operational and the scope 1 and 2 emissions of the organisations they invest in, or finance, are reported. While the merits of imposing the cost of reasonable rather than limited assurance on these funds is also debateable, it should not be entertained until scope 1 and 2 disclosures becomes available for the organisations in which they invest.

Importantly, a broader move to reasonable assurance for other components of reports (such as scenario analysis and risk management) by each entity's fourth year of reporting will represent a significant financial burden. It is not immediately clear that the added expense of reasonable rather than limited assurance is justified in these circumstances either.

If the AUASB proceeds with requiring reasonable assurance for all elements of sustainability reports, the FSC strongly recommends the AUASB:

- reconsider its decision to require reporting entities to undertake reasonable assurance prior to 2030 – noting that the Parliament chose not to mandate that any assurance occur until 2030; and
- provide standard wording that can be used for the first year in which reasonable rather than limited assurance is applied, since the comparative year will have had a different level of assurance.

### *Implementation*

The FSC commends the AUASB for developing what is clearly a thoughtful strategy for implementing assurance standards across group 1, 2 and 3 reporting entities as their obligations commence as part of the regime's staged implementation process. However, the complexity of this assurance strategy is likely to cause significant confusion among industry participants and report users. For example, in corporate groups undertaking separate climate reporting for their different entities, requiring varying levels of assurance for different related entities creates the potential for accidental non-compliance with ASSA 5010 as well as significant confusion among report users who would rightly expect the financial reports of related entities to be subject to the same level of assurance and different sections of the same entity to apply the same level of assurance.

The FSC suggests that since the legislation only requires assurance from 2030, it would be easier for industry, report users and auditors if there is more consistency in the levels of assurance across all reporting areas for each year, eg no assurance in 2025 and 2026 (noting entities would undertake

their own internal assurance so that directors would be able to sign off on the report) and limited assurance from 2027 onwards.

If this suggestion is rejected, then the FSC strongly recommends the AUASB:

- provide suggested wording that can be included in the reports to easily explain the scope of the review to the users; and
- alter its implementation timeline to expand the limited assurance for scope 1 and 2 emissions to at least 2 years (from 1 year), as this will allow companies time to address any findings from year 1 prior to requiring a reasonable level of assurance. Allowing at least 4 years would be preferable, as it would also ensure consistency across all areas of individual sustainability reports.

Given it will take time to build expertise and capability across the industry for assurance in climate-reporting, it would be useful for further guidance to be provided on the scope of work that auditors will have to do for each assurance level. This would be particularly useful for developing forward looking assumptions (scenario analysis) and greenhouse gas emission analysis. Additional transparency will also be necessary to maintain confidence in the regime, particularly with respect to scope 3 emissions.

### **Conclusion and next steps**

Given the climate-related financial disclosure regime is new, the accompanying AASB standards are untested, and ASIC only recently began consulting on its proposed interpretation of the regime, the FSC considers it premature to commit to an aggressive implementation timeline. The FSC would also welcome further consultation on the desirability of adopting reasonable rather than limited assurance in relation to fund managers and superannuation funds.

The FSC appreciates the opportunity to contribute to this consultation and looks forward to continued engagement with the AUASB. We would welcome the opportunity to meet with you or your team to discuss these issues in more detail and explore how we can work together to achieve these goals.

To arrange a meeting, please contact Jack Morgan, Director of Policy – Investment and Funds Management at [jmorgan@fsc.org.au](mailto:jmorgan@fsc.org.au).

Yours sincerely

**Jack Morgan**

Policy Director – Investments & Funds Management