

Australian Information Industry Association

Submission on

**Improving the efficiency of climate-related
financial disclosures**

About the AIIA

The Australian Information Industry Association (AIIA) is the nation's peak body for those in the digital ecosystem, leading strategic policy and advocacy to shape a thriving digital sector. Through strong engagement with government, industry, and the broader community, the AIIA ensures the voice of its members informs decision-making on technology, innovation, and digital capability.

Membership provides direct access to influential networks, premium events, and opportunities to collaborate on initiatives with the sector's best and brightest to drive industry growth, improve productivity, and secure Australia's place as a global technology leader. AIIA members access real collaboration, real connections, and real outcomes.

Introduction

The Australian Information Industry Association (AIIA) welcomes the opportunity to respond to Treasury's consultation paper on Improving the efficiency of climate-related financial disclosures.

AIIA supports the Government's objective of reducing compliance costs while maintaining the credibility of the regime. Each recommendation below is linked to the four principles in Box 1 of the consultation paper.

Summary of recommendations

1. Maintain limited assurance on an ongoing basis (Option 1a) and remove the requirement to transition to reasonable assurance.
2. Limit mandatory assurance to quantitative metrics, such as greenhouse gas (GHG) emissions and financial effects.
3. Permit reporting entities to use qualified third-party experts to assure GHG emissions.
4. Provide authoritative guidance clarifying six key concepts under AASB S2¹.
5. Permit wholly owned subsidiaries of multinational groups to rely on parent-entity reporting and to align their reporting periods with the parent entity.
6. Remove the mandatory use of scenario analysis where an entity has no, or limited, material exposure to climate-related risks and opportunities.

¹ AASB S2 *Climate-related Disclosures* (Cth) ('AASB S2').

Proposal 1: Adjusting assurance settings

Maintain limited assurance on an ongoing basis (Option 1a)

AIIA supports removing the requirement to transition to reasonable assurance and requiring only limited assurance on an ongoing basis (Question 1). We support this option for the following reasons.

1. Disproportionate compliance burden.

The requirement to obtain reasonable assurance is fundamentally inconsistent with Principle 1. It places a meaningful burden on reporting entities without a proportionate benefit.

Even for well-resourced entities with established sustainability reporting capabilities, obtaining limited assurance over a narrow subset of disclosures can be disproportionately time-consuming and costly. The process demands substantial senior leadership time, numerous auditor meetings, multiple draft reviews and significant fees. If limited assurance alone imposes this level of burden, the resource demands of reasonable assurance raise serious concerns.

2. Unclear distinction and questionable incremental benefit.

There is limited consensus among auditors on the practical difference between limited and reasonable assurance. Consequently, auditors are already applying higher standards than those typically required for limited assurance. Escalating the requirement further risks compounding this issue without delivering proportionate value.

3. Insufficient market capacity.

By 2030, the assurance market is unlikely to have sufficient capacity to meet reasonable assurance demands across Group 1, 2 and 3 entities concurrently. Scope 3 assurance is particularly challenging, with no providers currently offering reasonable assurance in this area.

4. Consistency with the other principles.

Removing the reasonable assurance requirement is also consistent with:

- **Principle 2**, as IFRS S2² does not prescribe any particular assurance requirements;
- **Principle 3**, as removing the future requirement would avoid further disruption and allow entities to embed limited assurance processes without the distraction of additional, unnecessary requirements; and
- **Principle 4**, as the issue could be revisited in the 2028–29 Review if warranted.

² International Sustainability Standards Board, *IFRS S2 Climate-Related Disclosures* (June 2023) ('*IFRS S2*').

Limit mandatory assurance to quantitative metrics

Mandatory assurance should be limited to quantitative metrics, such as GHG emissions and financial effects, where independent verification provides clear value. Qualitative disclosures on governance, strategy and risk management do not lend themselves to the same degree of verification and should be excluded from mandatory assurance.

Extending assurance to these areas imposes significant costs without a commensurate increase in reliability. It also risks falsely implying auditor endorsement of the entity's strategy. This approach is consistent with all four reform principles.

Allow qualified third-party experts to assure GHG emissions

Under the current framework, only registered company auditors under the *Corporations Act 2001* (Cth) may assure climate-related financial disclosures, and ASSA 5000³ requires "sustainability competence" for engagement teams. However, registered auditors often lack the capacity and expertise required for multinational entities with complex, cross-jurisdictional GHG emissions reporting under AASB S2. This increases compliance costs without improving quality (Principle 1).

AIIA recommends that reporting entities be permitted to use qualified third-party experts for GHG emissions assurance. This would:

- **reduce compliance costs (Principle 1)** by allowing entities to engage providers with genuine emissions expertise, avoiding the cost of upskilling or supplementing the registered auditor's capabilities;
- **improve assurance quality**, consistent with ASSA 5000's recognition that sustainability assurance engagements may require "specialised skills and knowledge beyond those possessed by the engagement leader and other members of the engagement team";⁴
- **minimise disruption (Principle 3)** by allowing entities to retain existing relationships with specialist emissions verification providers, rather than requiring those providers to operate only as subordinate experts within an auditor-led engagement; and

³ *Standard on Sustainability Assurance ASSA 5000 General Requirements for Sustainability Assurance Engagements* (Cth) ('ASSA 5000').

⁴ ASSA 5000 para A99.

- **maintain international alignment (Principle 2)**, as IFRS S2 does not prescribe any particular assurance requirements.

ASSA 5000 already permits third-party experts to be engaged as a "management's expert" or "practitioner's expert".⁵ However, this is materially different from allowing a reporting entity to discharge its assurance obligations directly through a third-party report.

Under the current model, the registered auditor retains overall responsibility and must separately evaluate the expert's competence, objectivity and work product.⁶ This supervisory layer adds cost and complexity without necessarily enhancing reliability.

Proposal 2: Improving consistency in the application of existing requirements

Key concepts under AASB S2 lack adequate guidance, creating significant compliance uncertainty. This is compounded by assurance providers relying on their own internal interpretations rather than the standard itself, effectively requiring entities to adopt the auditor's view in order to obtain assurance.

Consequently, the substantive meaning of AASB S2 is being shaped by auditor frameworks rather than legislative intent. This risk is heightened by ASIC's market-based compliance approach. Without authoritative guidance, accounting firms may establish de facto standards that exceed legislative intent.

The table below sets out the key AASB S2 concepts that AIIA considers require clarification (Questions 9, 10 and 12).

Key Concepts	Concerns	Recommendation	Applicable Principles
Scope of 'Potential' Primary Users	Ambiguity around 'potential' investors, particularly for wholly owned subsidiaries, creating unnecessary compliance costs.	Confirm that 'potential' users do not include purely hypothetical future capital providers; limit to specific, identifiable, non-remote circumstances.	1

⁵ Ibid paras A99–A101, A266–A270.

⁶ Ibid paras 56, 92, A136–A148, A266–A270.

Alignment of User Concepts (AASB S2 & ASSA 5000)	Inconsistency between 'primary users' (AASB S2) and the broader 'intended users' (ASSA 5000) risks driving overly broad disclosures.	Clarify that for assurance purposes, the relevant group is strictly 'primary users' as defined in AASB S2.	1, 2, 3, 4
Disclosable CRROs	The Corporations Act uses "material financial risks," ⁷ while AASB S2 uses "could reasonably be expected to affect the entity's prospects." ⁸	Link disclosable CRROs clearly to financial materiality, consistent with the Corporations Act.	1
Publicly Available Information	Uncertainty on whether entities can assume primary users have prior knowledge of publicly available climate strategies.	Allow entities to make reasonable judgements about primary users' existing knowledge derived from public information.	1
Risk Mitigation Activities	AASB S2 does not prescribe whether, or how, an entity should consider risk mitigation activities when identifying CRROs. Some auditors insist CRROs must be assessed on an "inherent" basis, ignoring long-standing risk mitigation strategies.	Allow entities to take into account risk mitigation activities that are planned or already in place when exercising judgement in determining whether a climate-related risk is material.	1, 2
Role of Auditors in CRRO Identification	Auditors focusing disproportionately on outcomes and applying "house views" rather than assessing the robustness of the entity's process.	Clarify that the auditor's role is to assess whether the entity applied a robust, defensible process, not to substitute their own judgement	1

⁷ *Corporations Act* s 296D.

⁸ AASB S2 para 2.

Additional proposals

AIIA proposes two further reforms that are consistent with the principles in Box 1.

1. Address the incongruence between AASB S2 and the circumstances of wholly owned subsidiaries of multinationals

Several requirements and fundamental concepts in AASB S2 do not adequately contemplate the operating reality of wholly owned subsidiaries of multinational groups, in which:

- climate-related risks and opportunities are identified, assessed and managed at a global level; and
- GHG emissions are measured and reported on a consolidated, group-wide basis.

Applying AASB S2 to these entities compels the artificial disaggregation of climate-related information from its global context. The resulting disclosures may not accurately reflect the entity's climate-related risks and opportunities, which are best understood at the group level.

This issue is compounded where reporting periods differ, generating significant duplicate data-collection and reconciliation costs without a corresponding improvement in information quality (Principle 1).

Subsidiary reports that simply reproduce a subset of group-level information impose unnecessary compliance costs (Principle 1) and disruption for the reporting entity (Principle 3). They provide no tangible benefit to primary users, whose decisions turn on the performance of the global group.

Accordingly, AIIA recommends the following:

- **Permit reliance on parent-entity reporting.** A wholly owned Australian subsidiary should be permitted to satisfy its AASB S2 obligations by relying on its overseas parent's group-level reporting, provided that reporting covers governance, strategy, material risks and emissions for the local entity. This should apply whether or not all information is assured, provided emissions data is assured to internationally recognised standards.
- **Align subsidiary reporting periods with the parent entity.** A subsidiary should be permitted to align its emissions data with its parent entity rather than create separate datasets. This enables a single, coherent climate-information dataset for one economic period, reducing duplicate costs (Principle 1) and operational disruption (Principle 3).

2. Remove mandatory scenario analysis where low exposure results in cost without meaningful information

The Corporations Act and AASB S2 require scenario analysis to assess climate resilience.⁹ However, where a robust assessment demonstrates no, or limited, material exposure to climate-related risks and opportunities, scenario analysis is unlikely to generate material information.

In these circumstances, the costs and false precision of modelling outweigh the informational benefits (Principle 1). AIIA therefore recommends removing the mandatory use of scenario analysis in these circumstances.

⁹ *Corporations Act* s 296D; *AASB S2* para 22.