



Investor
Group on
Climate
Change

Submission to XRB consultation on assurance over GHG emissions disclosures in New Zealand

March 2023

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The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide feedback to the External Reporting Board (XRB) consultation on its draft standard for assurance over greenhouse gas (GHG) emissions disclosures (proposed standard).¹

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over \$3 trillion in Australia and New Zealand and \$30 trillion around the world.

Summary of key points

This feedback addresses questions from the perspective of institutional investors as end users of climate-related disclosures, and highlights support for:

- International alignment of standards to promote consistency and comparability.
- A robust assurance framework to promote confidence in reported information, similar to audited financial statements, including ethics, independence, and quality management requirements.
- Expanding assurance to the broader climate statement *over time*, allowing for capability building and taking advantage of learnings from a post implementation review.
- Assurance practitioners to have relevant qualifications and expertise, and be subject to ethical, independence and quality management requirements.
- End users to easily interpret and compare assurance outcomes, raising concern over the proposal to allow assurance practitioners to use different assurance engagement standards.
- Additional information in the assurance report which helps users to understand the assurance opinion and process, and inform decision making.

¹ [XRB, Assurance over GHG Disclosures consultation, closing 24 March 2023.](#)

About the proposed standard

The proposed standard responds to the legislative requirement² that assurance over GHG emissions disclosures be undertaken in accordance with the XRB's auditing and assurance standards. The XRB's objective is to develop a standard that contributes to high-quality assurance over GHG emissions disclosures made by climate reporting entities (CREs). The XRB is intentionally developing a temporary standard, recognising that the standard setting environment is rapidly evolving with international assurance standards for sustainability assurance engagements still in development, and that the scope of assurance may extend beyond GHG emissions disclosures to the full climate statement in the future. The development of an assurance practitioner licensing and oversight regime is under consideration by government.

Addressing user needs

IGCC supports the proposed standard's objective to enable competent and independent assurance practitioners to provide consistent, high-quality assurance over GHG emissions disclosures.

As in financial reporting, external assurance has a key role in contributing to reporting reliability and investor confidence over climate-related disclosures. A robust assurance framework is important to ensure investors and other stakeholders can rely on the integrity of information provided, similar to audited financial statements, including ethics, independence, and quality management requirements.

International alignment of approaches to reporting and assurance is a key priority for investors to promote consistency and comparability including across jurisdictions. Therefore, IGCC supports the XRB's proposal to review and update the assurance standard following the finalisation of international assurance standards currently under development, to promote international alignment and respond to evolving practice. Consistency with, and evolution of, existing and emerging assurance standards is important to promote common understanding, consistency and comparability of reporting within and across jurisdictions.

Importantly, we recognise end user needs are not uniform. For example, asset owners and fund managers are also required to produce climate-related risks disclosures under the XRB's Climate Standards, and are conscious that many end-users of these reports, as well as of company reports, are individual, everyday people seeking to understand whether their investments are being

² Under the *Financial Markets Conduct Act*, as amended by the *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021*.

managed responsibly over the long-term. The XRB's approach to developing assurance standards and guidance needs to consider a range of end user needs and levels of sophistication.

How much assurance should there be, over what aspects and at what cost?

There is strong investor demand for robust and reliable information on climate-related risk and opportunity which is likely to increase over time. Assurance plays a key role in this. IGCC supports expansion of assurance coverage to the full climate statement over time.

Starting with assurance of greenhouse gas (GHG) emissions disclosures and subsequently expanding coverage will allow time for capability building and to identify any issues that arise following practical experience applying the climate-related disclosure and assurance standards. A comprehensive post implementation review including close consultation with stakeholders will be valuable to inform this process, and to promote alignment with emerging international standards.

Signalling the direction of travel and timing for expansion of assurance requirements from GHG emissions disclosures to broader coverage of climate statements provides an important market signal and helps stakeholders to adequately prepare, including establishing the wider assurance framework and ecosystem. It will be beneficial for the XRB to encourage early voluntary assurance beyond the mandated requirements.

Who should undertake the assurance?

Ensuring suitably qualified assurance practitioners while minimising the cost burden is an important priority for investors.

Assurance should be carried out by experts with relevant qualifications and expertise, who are subject to ethical, independence and quality management requirements. Governance and oversight arrangements should be in place to a similar level as for financial reporting.

Investors are interested to understand expectations of assurance practitioners and how consistency of assurance will be promoted. To that end, we note the XRB's proposal to allow assurance practitioners to comply with one of two international assurance standards.³

³ International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the IAASB; or ISO 14064-3:2019 Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements (ISO 14064-3) issued by the ISO.

Allowing this option for assurance practitioners to choose from multiple standards raises concerns regarding consistency and comparability of assurance approaches. We suggest the XRB review this proposal and consider allowing one consistent approach, rather than multiple options.

How is the assurance report used – specifically what will make the report meaningful to users?

The assurance report is a valuable source of information for investors. Assurance can help sharpen user understanding of the information to ensure it is reliable, consistent and comparable.

Beyond the assurance conclusion, additional information on key matters can provide important context and insights for investors, for example on where the assurance practitioner has spent their time, areas of most risk etc. We support the proposal to allow assurance practitioners to include information on key matters, areas that the assurance practitioner considers should be highlighted, areas of inherent uncertainty and other matters which provide valuable context and information for users to understand the assurance opinion and inform decision making and stewardship. This information can also be valuable for standard setters and regulators to understand common key issues identified in the assurance process. Some of these matters, such as inherent uncertainty should also be primarily addressed by the preparer, with assurance practitioner comments focused to the assurance process.

Additional information must follow established principles for what should be included, making clear the link to the assurance process and activities, and avoiding any perceived risk of straying into subjective personal belief. Robust processes for managing quality and independence and supporting guidance will help to promote confidence in professional judgement and expertise of assurance practitioners.

We appreciate the opportunity to provide feedback on this important consultation. For further information and to discuss any matters within this submission, please contact:

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