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Australian Securities and Investments Commission
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via email: sustainable.finance@asic.gov.au

18 December 2024

Dear Ms LaBouchardiere,

KPMG response: ASIC Consultation Paper 380 Sustainability Reporting

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise but also employees, governments, regulators, and the wider community. We strive to contribute in a positive way to the debate that is shaping the Australian economy, and we welcome the opportunity to comment on Consultation Paper 380 (the consultation paper).

KPMG has been actively involved in recent consultation processes on the topic of climate and sustainability disclosures, including November 2024 submissions to the AUASB on the *Proposed Australian Standard on Sustainability Assurance* and *Prohibiting Sustainability Assurance Practitioners from using Direct Assistance by Internal Auditors*, May 2024 submission to the AUASB on *Assurance over Climate and Other Sustainability Information*, and 2023 submission to Treasury's Consultation Paper on *Climate-related financial disclosure*.

We welcome the release of the Draft Regulatory Guide 000 for Sustainability Reporting (Draft RG 000). As mandatory climate reporting draws closer, reporting entities would greatly benefit from the clarity the regulatory guide will provide on areas of uncertainty and address any potential diversity in application.

We outline below several key areas where we believe further clarity on the draft guidance would be beneficial. KPMG has provided further detailed comments on these and other proposals at the appendix.

Draft RG 000 seeks to provide guidance on the interaction of the new mandatory disclosures with voluntary sustainability-related disclosures, including with reference to existing and encouraged practice. Specifically, Draft RG 000 clarifies that the modified liability settings do not extend to statements voluntarily made outside a sustainability report unless required by regulation. ASIC and the AASB have both publicly encouraged entities to make voluntary statements and report under AASB S1 and AASB S2 earlier than required by the Act. In light of this, ASIC should consider whether the modified liability settings and their exclusion of such voluntary statements is a disincentive for entities to voluntarily provide this information.

Further, information on the interaction of the draft guidance with integrated reporting is required, particularly in relation to labelling and cross-referencing. The labelling requirements in Draft RG 000 may present a challenge for companies preparing an integrated report, and it would be beneficial for ASIC to provide further clarity. In relation to cross-referencing, more practical application guidance would be useful on specific circumstances where an entity can cross-reference particular information.

The sustainability reporting thresholds will not only determine if and when an entity is in scope of the sustainability reporting requirements, but also whether an entity is permitted to apply the Group 3 materiality exemption (as only entities in Group 3 may apply this exemption). Given this significance, KPMG urges ASIC to provide further guidance on how it will apply Australian accounting standards in relation to the sustainability reporting thresholds. Specifically, guidance on what constitutes revenue should be provided by industry type; clarity on the term 'assets under management' and how this should be determined; and how asset and revenue metrics apply to Investment entities would be beneficial.

Further guidance or clarification on ASIC's expectation on the practical application of the Group 3 materiality exemption (when a Group 3 entity assesses that it has no material climate-related risks or opportunities) would also be beneficial.

Draft RG 000 contains a footnote stating that where a reporting entity is seeking professional advice to ensure compliance with the sustainability reporting requirements, the reporting entity's auditor should not provide this advice (RG 000.29). KPMG recommend that this footnote be removed as there are permissible services that auditors may provide without compromising independence, as outlined in APES 110 Code of Ethics for Professional Accountants.

Should you wish to discuss the contents of this submission further, please do not hesitate to reach out.

Kind regards,

Julian McPherson

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Audit & Assurance

KPMG Australia

Shaun Kendrigan

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Appendix: Comments on proposals

B) Preparing a sustainability report

Directors' declarations – transition period and 'reasonable steps'

For the financial years commencing between 1 January 2025 and 31 December 2027, directors are only required to declare that in their opinion, the entity has taken *reasonable steps* to ensure that the sustainability report (other than the directors' declaration) is in accordance with the Corporations Act.

Given the regime's early stage of implementation and the lack of precedent for what constitutes 'reasonable steps', we recommend ASIC provide practical guidance and examples of what 'reasonable steps' would constitute for this purpose. This would benefit both directors in making this statement and auditors given the audit opinion includes the directors' declaration, and so an assessment of these reasonable steps will need to be made.

ASIC or the AUASB should also consider the 'reasonable steps' declaration's impact on the auditor's assurance report.

Modified liability

Under the modified liability settings, no legal action other than criminal action, or action by ASIC, can be brought in relation to 'protected statements' made in the sustainability report or the auditor's report on the sustainability report.

Draft RG 000.65 clarifies that the modified liability settings do not extend to statements voluntarily made outside a sustainability report (such as in investor presentations) unless required by regulation. A sustainability report is defined in the *Corporations Act 2001* (Act) and is taken to mean the report that is required under s292A of the Act. Hence entities who:

- voluntarily decide to adopt and apply AASB S2 do not appear to be covered by these modified liability settings;
- voluntarily adopt and apply AASB S1 do not appear to be covered by the modified liability settings; and
- reproduced information in sustainability reports required by s292A into other public documents are not covered by the modified liability settings.

ASIC and the AASB have publicly encouraged entities to make voluntary statements and report under AASB S1 and AASB S2 earlier than required by the Act. In light of this, ASIC should consider whether the modified liability settings and their exclusion of such voluntary statements is a disincentive for entities to voluntarily provide this information.

We would support providing some protections to voluntary adopters similar to mandatory adopters, or those mandatory adopters that are voluntarily preparing sustainability reports ahead of statutory deadlines (i.e., Group 2 reporter voluntarily preparing and lodging sustainability report following Group 1 reporting timing).

Further, it is unclear how these modified liability settings work in the case of covered statements in a sustainability report that are reproduced in another document such as an Operating and Financial Review, directors report, investor presentation and prospectus or PDS documents. We would welcome ASIC's clarifications on this matter and how entities can ensure that they can rely on these modified liability settings for otherwise covered statements. For example, whether a replicated disclosure from a sustainability report included in an investor presentation, with a reference/link back to the full sustainability report, would ensure that this replicated disclosure is still covered by the modified liability settings.

Application for Group 1 entities applying 4-4-5 reporting year

We request that clarification is provided to those companies that apply a 4-4-5 reporting year, and accordingly have a reporting period that ends before 31 December or 30 June. For these companies, it could mean their first reporting period is the year subsequent to what is otherwise expected. For example, clarifying that a Group 1 company with a 4-4-5 annual reporting period beginning on 30 December 2024 would not be required to report at 31 December 2025 because its reporting period started on 30 December 2024 and did not start on or after 1 January 2025. We understand that some entities in this situation are looking to seek legal advice on this reporting requirement, hence ASIC clarification would ensure a consistent outcome and minimise costs incurred by entities in seeking this legal advice.

Timing of reporting to members and ASIC

The timing of annual financial and sustainability reporting to members and ASIC is aligned under the *Corporations Act 2001*. We recommend ASIC provide guidance on the requirement (or expectation) of all reports (financial report, sustainability report, director's report and auditor's reports) being provided at the same time. For example, a listed entity may wish to provide its financial report, directors' report and related auditor's report in line with ASX Appendix 4E reporting deadlines (within 2 months of the end of the financial year) while only providing its sustainability report and related auditor's report closer to the 3 months after the end of the financial year (Corporations Act) deadline.

If a material issue is identified during the assurance engagement of the sustainability report, it could impact the financial report. This scenario could lead to complexities and potential consequences for the financial report if the reports are released at different intervals.

C) Content of the sustainability report (specific issues)

No material climate-related risks or opportunities

When a 'Group 3' entity assesses that it has no material climate-related risks or opportunities, the sustainability report for the year is limited to a statement that there are no material financial risks or opportunities relating to climate for a financial year and an explanation on how the entity determined that it had no material financial risks or opportunities. To ensure consistent application, we strongly urge ASIC to provide further guidance and/or clarification on the following:

- ASIC's expectation on the practical application of the Group 3 materiality exemption. Some have expressed a view that climate change will always give rise to a material risk or opportunity for entities.
- Draft RG 000.68 states that the exemption does not extend to registered schemes, registrable superannuation entities, and retail corporate collective investment vehicles (collectively "asset owners"). This appears inconsistent to S296B(1)(b) and S296B(5) which prescribes that the Group 3 exemption extends to an asset owner which holds assets (including the entities it controls) of less than $5 billion.

We also recommend that ASIC amends the footnote under Draft RG 000.67 which states that the climate statements of entities with no material climate-related risks or opportunities will only contain a statement that there are no material financial risks or opportunities relating to climate. The *Corporations Act 2001* requires the climate statements to also include a statement explaining how the entity determined that it had no material financial risks or opportunities relating to climate.

Forward-looking climate information – continuous disclosure

Draft RG 000.78 states that reporting entities that are not disclosing entities should provide an update to the market when relevant facts and circumstances related to forward-looking information in the climate statement change.

This appears to be imposing a continuous disclosure obligation on non-disclosing entities that does not exist under current laws and regulations. ASIC should clarify whether this was the intent of this statement as we would expect that any new requirements imposed on non-disclosing entities should go through a formal legislative process rather than being imposed through a regulatory guide.

Labelling

Draft RG 000 states that the terms 'sustainability report' and 'climate statements' have precise meanings in the Corporations Act 2001 and should be used to exclusively refer to statutory information required by regulations. They should be sufficiently differentiated from other reports or statements that may have been historically labelled as 'sustainability report'. The terms 'voluntary sustainability statements' and 'voluntary climate statements' are recommended to be used for statements containing sustainability-related information that are not required to be included in the statutory climate statements/statutory sustainability reports.

ASIC proposes that the statutory sustainability report should be clearly distinguished and be separately presented from other information in the annual report.

We note that this labelling will create a potential challenge for organisations currently doing integrated reporting and could also result in increased confusion from users of the integrated report. KPMG would support further guidance on how this proposed guidance would interact with integrated reporting. ASIC should also consider providing examples of labelling of voluntary information from mandatory information, particularly for situations where integrated reports are prepared.

Scenario analysis

The Corporations Act requires a scenario analysis using the increase in the global average temperature that is limited to the increase mentioned in subparagraph 3(a)(ii) of the *Climate Change Act 2022* [s296D(2B)(b)]. This is currently 1.5C.

Some entities may use climate change scenarios that are different to 1.5C based on the view that these are more relevant and have more robust publicly available information to support them. Such scenarios would not comply with the scenario analysis requirements of the Corporations Act. A common example is an entity applying the SSP1-2.6 climate change scenario published by the IPCC (which has a temperature alignment of approximately 1.8C and a range of 1.3C-2.4C) as opposed to the older SSP1-1.9 climate change scenario which is aligned to 1.5C. We recommend further guidance be provided on this 1.5C alignment, and that a range of temperatures be accepted to meet this legislative requirement.

D) Sustainability-related financial disclosures outside the sustainability report

Selective use or reproduction of information

Draft RG 000.104 states that selective use or reproduction of information contained from a sustainability report may increase the risk of compromising the objective of the sustainability reporting regime and increase the risk that these disclosures made outside of the sustainability report may be misleading.

ASIC should clarify the objective of this guidance as it may be misconstrued to be discouraging such action.

In the current reporting landscape, entities are encouraged to provide sustainability information in other communications not required by regulations such as investor presentations, media releases etc., to ensure investors are informed throughout the reporting period on key areas impacting the entity. Further, some investors may rely on these other documents to inform them on their investment decisions.

We understand that there is risk that certain selective reproduction could be misleading, but this would not always be the case. We recommend ASIC provide examples of when selective use or reproduction of information from a sustainability report may be acceptable (i.e., reproduction of some information with a full reference or link to the full sustainability report).

Sustainability-related financial information in the OFR – cross referencing

Draft RG 000 addresses incorporation of disclosures by cross reference. Material information can be included in a reporting entity's climate statements by cross-referencing to another document published by the reporting entity as permitted in AASB S2.

KPMG welcomes the proposed clarifications on cross referencing as it supports current market practice and will reduce unnecessary duplication and segregation of sustainability related information between the annual report and other pre-existing sustainability reports issued by entities historically; however, the impact of cross-referencing on the assurance report will need to be carefully considered.

To provide clarity on this matter, we would recommend ASIC provide further practical application guidance such as:

- Under what circumstances (if any) an entity can cross reference some of their sustainability reporting requirements to disclosures contained in an Operating and Financial Review (OFR) i.e. if an entity discusses the portion of assets exposed to physical or transition risk in their OFR;
- Any circumstance under which an entity could cross reference some of their disclosures to a foreign parent sustainability report that is available at the same time as the reporting entity's sustainability report. For example, where governance and risk management processes are aligned and managed centrally by the foreign parent;
- Whether cross referencing can only be done to one other document outside the sustainability report, or if it could be more than one; and
- Impact of cross-referencing to the assurance report, particularly the potential complexity introduced if cross-referencing is permitted to more than one document, and how to maintain overall clarity regarding the assurance report's coverage. Additional complexity may arise if material errors are identified that impact multiple documents, necessitating consideration of timing.

Sustainability-related financial information in disclosure documents under Ch 6D and PDSs

RG 228 *Prospectuses: Effective disclosure for retail investors* is the relevant Regulatory Guide for prospectuses and is widely used by preparers to ensure they meet their obligations when preparing a prospectus for specific transactions. To streamline the guidance and avoid confusion, it would be beneficial to incorporate ASIC's guidance on sustainability reporting within RG 228, with a clear signpost from RG 000. This approach would help preparers navigate the requirements more efficiently and ensure they are aware of the specific expectations related to sustainability disclosures in prospectuses. This would equally apply to RG 254 *Offering securities under a disclosure document* being the primary guide for preparing product disclosure statements (PDS).

Draft RG 000 sets out guidance and expectations for prospectuses and PDSs beyond the legislative requirements, which mandate making the most recent sustainability report available. This additional layer of expectations and reference to considering and being informed by AASB S2 in preparing sustainability-related information in the disclosure documents could create confusion among preparers regarding compliance and the extent of disclosures required.

There is currently a lack of clarity regarding what to include or exclude concerning AASB S2 guidance. For example, if an entity makes their sustainability report available with their prospectus or PDS as required by the Corporations Act, it is unclear which information should be reproduced or summarised into the disclosure documents whilst meeting the objective of providing clear, concise and effective information in RG 228. In contrast, where no sustainability report has been prepared as the relevant reporting entity is not yet required to prepare one under Chapter 2M of the Corporations Act, clarity is needed on whether AASB S2 disclosures should be incorporated into the prospectus or PDS to meet its obligations. Preparers would greatly benefit from targeted examples that illustrate what constitutes good inclusion and what does not. Such examples would provide practical insights and help standardise the quality and comprehensiveness of sustainability disclosures across different entities.

The modified liability setting, which applies exclusively to protected statements in sustainability reports or when a protected statement is required to be made under a Commonwealth Law (RG 000.63), needs to be explicitly tied into the guidance for reproducing or summarising information (RG 000.65) in a prospectus or PDS. Clear and explicit guidance on whether and how these modified liability provisions apply to the sustainability related disclosures in a Prospectus or PDS would be beneficial.

Disclosures within a prospectus or PDS come with a different level of scrutiny risk for reporting entities and assurance providers and come with an even more heightened level of sensitivity compared to financial report, given their purpose. Clarity on ASIC's expectations for specific disclosures, reproduction of climate statements and application of modified liability settings will help preparers understand their obligations and mitigate potential risks associated with non-compliance or incomplete disclosures.

E) ASIC's administration of the sustainability reporting requirements

Sustainability reporting relief

Draft RG 000 confirms that any existing financial reporting relief under an ASIC instrument will be automatically extended to sustainability reporting. We would support ASIC considering providing relief in some of the below detailed circumstances:

1. *Combined/aggregated sustainability report for sister subsidiaries of foreign parent*

   Australian sister subsidiaries with multiple entry points into Australia that have no common parent with Chapter 2M reporting requirements.

   These entities are typically able to form Multiple Entry tax consolidated groups for income tax purposes under the Income Tax Assessment Act 1997 where they are viewed as one taxable group and prepare a consolidated tax return.

   A similar form of relief may provide cost efficiencies for certain sister subsidiaries with respect to their sustainability reporting requirements, particularly where their climate related risks and opportunities are managed by the one common foreign parent.

2. *Early adoption of sustainability reporting for consolidated groups with Group 1 subsidiaries*

   Australian subsidiaries of an Australian group may be required to prepare a sustainability report under the Corporations Act 2001 before their Australian parent (see example below). In these instances, the Australian parent may choose to voluntarily prepare a consolidated sustainability report earlier than required by legislation. Currently, the legislation and draft RG does not appear to relieve the Australian subsidiaries from having to prepare their own sustainability report under Chapter 2M.

   Once the parent entity is required to prepare a sustainability report under Chapter 2M and it prepares a consolidated sustainability report incorporating the subsidiaries, those subsidiaries would be eligible for relief from having to prepare separate sustainability reports.

   Australian groups would greatly benefit from relief in this instance, and it would further encourage early voluntary reporting by Group 2 entities.

   To illustrate this by way of example:

   - Australian parent entity is an asset owner and Group 2 reporter with first sustainability report required for the year ended 31 December 2027;
   - Australian subsidiary is not an asset owner and captured by the Group 1 thresholds with first reporting due 31 December 2025.
   - Australian parent voluntarily prepares a consolidated sustainability report for 31 December 2025.

   In this example, clarity is required on whether the Australian subsidiary can be relieved from preparing its own sustainability report under the Act given it is captured in a voluntary sustainability report of a Chapter 2M reporter.

3. *Voluntary consolidated sustainability report by non-Chapter 2M reporter*

   Similar to item 2 above, we are aware of instances of entities that do not have Chapter 2M financial reporting obligations but are planning to voluntarily prepare a sustainability report that complies with AASB S2. For example, a not-for-profit entity that is governed by the ACNC.

   These entities often have subsidiaries that have sustainability reporting obligations under Chapter 2M.

   Currently, the legislation and draft RG does not appear to relieve the Australian subsidiaries from having to prepare their own sustainability report under Chapter 2M, if their parent entity voluntarily prepares a consolidated sustainability report that complies with AASB S2. Such Australian groups would greatly benefit from relief in this instance, and it would further encourage early voluntary reporting by other entities not governed by ASIC.

4. *Corporations Act consolidation relief interaction with other ASIC legislative instruments*

   Section 292A(2) of the Corporations Act provides relief for subsidiaries from having to prepare separate sustainability reports if their Australian Parent prepares a consolidated sustainability report under Chapter 2M. We understand that there may be some confusion in the market as to the application of this relief and its interaction with other ASIC financial reporting relief instruments.

   - We believe it would be beneficial if RG 000.177 was explicit in its guidance, confirming that where the parent entity prepares a consolidated sustainability report under Chapter 2M, all subsidiaries incorporated in this report are relieved from having to prepare their own Chapter 2M sustainability report.
   - We would support ASIC extending this guidance to be explicit with what this means for joint arrangements and associate entities of the parent, for example, if a consolidated sustainability report disclosures incorporate 100 percent of the greenhouse gas emissions of a joint arrangement under the operational control model, yet the joint arrangement is subject to equity accounting (and not consolidation) in the parent's financial report.
   - We would request ASIC to only amend existing legislative instruments that would provide relief over and above the S292A(2) relief to avoid confusion and misapplication of reporting relief. For example, ASIC Instrument 2016/785 provides financial reporting relief only for wholly owned entities of the parent. Amending this relief to incorporate sustainability reporting relief may cause confusion as to whether subsidiaries that are not 100 percent owned can still get sustainability reporting relief under s292A(2).

F) Other issues regarding disclosure of sustainability-related information

Sustainability reporting thresholds

Entities must prepare a sustainability report if they have financial reporting obligations under Chapter 2M of the *Corporations Act 2001* and meet at least one of the sustainability reporting thresholds. The thresholds depend on the definitions of revenue, assets and employees. Revenue and the value of assets are determined in accordance with relevant accounting standards.

CP 380 asks whether guidance is required on how to determine revenue, employees and assets for the purposes of applying the sustainability thresholds. To ensure consistent application, we strongly urge ASIC to provide further guidance on the items detailed below.

Although we appreciate it would be inappropriate for ASIC to interpret accounting standards, given ASIC will be enforcing the sustainability reporting legislation, communicating how ASIC will apply its interpretation is critical to both mitigating diversity in application and an understanding of how ASIC will apply Australian accounting standards in this context. The risk in the inappropriate application of these thresholds impacts the timing of an entity's sustainability reporting (i.e. whether they are Group 1, 2 or 3); whether they have any reporting obligations at all (i.e. are below Group 3 thresholds); and whether they are able to apply the Group 3 materiality exemption.

1. *'Revenue'*

   There is judgment and diversity in practice in what entities consider represents revenue under Australian Accounting Standards.

   Revenue is defined in AASB 15 as income arising in the course of an entity's ordinary activities. Income is further defined in AASB 15 as increases in economic benefits during an accounting period in the form of inflows or enhancement of assets or decrease of liabilities that result in an increase in equity.

   These definitions capture more revenue than AASB 15 revenue from contracts with customers. Common examples of items that may be considered revenue by some and not others include gains/losses on financial instruments, investment property or even the share of profits from equity accounted investments.

   Further guidance from ASIC is needed to minimise diversity in the application of the reporting thresholds which risks giving rise to the risk of different scoping outcomes for similar entities.

   We suggest that any guidance on what constitutes revenue should be provided by industry type as income from ordinary activities varies across different industries e.g. financial services, property, corporations, managed investment funds.

2. *'Assets under management'*

   The draft regulatory guide refers to assets under management when assessing the $5bn asset threshold for asset managers. This is not a defined term, nor a term used in the Corporations Act 2001.

   Under Section 292A(6) the $5bn asset owner threshold applies to *the value of assets at the end of the financial year of the entity and the entities it controls*. The term control and value of assets is to be determined in accordance with Australian accounting standards.

   Assets under management is a term used and defined by each individual asset manager and generally encompasses a much broader range of assets than those an entity controls under accounting standards. Assets an entity controls are generally reported on the entity's balance sheet under accounting standards, whereas assets under management are not.

   We request ASIC clarify which term is the appropriate one for asset owners to apply when determining whether they are in scope of the sustainability reporting obligations. Should this be assets under management, we request ASIC provide clarification on how this should be determined given the lack of any accounting definition.

3. *How asset and revenue metrics apply to Investment entities*

   We request ASIC consider the application of the asset thresholds to Investment entities (defined by AASB 10). These entities are not permitted to prepare consolidated financial statements and instead recognise their investments in subsidiaries at fair value. As a result, it is unclear whether *assets controlled by the entity* represent the total assets reported on the investment entities balance sheet, or whether the investment entity would have to consider what the assets would be had they consolidated all subsidiaries.

   For example, an asset manager controls several funds under the definition of control in the Australian Accounting Standards. It does not consolidate them into its balance sheet due to an exemption in AASB 10 *Consolidated Financial Statements*. As a result, it recognises investment in the funds it controls at fair value of $3bn rather than consolidating and recognising the underlying controlled funds' gross assets of $10bn and gross liabilities of $7bn. In applying S292A(7) and the $5bn asset threshold, clarification is needed to determine whether the asset manager should consider the total assets reported by the asset manager in its consolidated balance sheet forming part of its financial statements (which is below $5bn) or whether it considers the value of $10bn of gross assets held by the funds it controls, the value of which is not captured in the consolidated balance sheet. Similarly, clarification is needed on whether the revenue metric would include the net gain in fair value as revenue, or instead whether it would be necessary to look to the revenue/income from the underlying controlled funds' assets.

Other considerations

ASIC's role

Draft RG 000.21 indicates that ASIC's role in administering the sustainability reporting requirements does not 'generally' extend to assessing the ambition or merit of an entity's climate-related strategy or targets as these are determined by an entity's directors and management.

We would not consider it to be ASIC's role to assess the ambition or merit of an entity's climate strategy or targets. Hence, we request ASIC reconsider this paragraph or clarify in what instances other than when information is presented in an incorrect, incomplete or misleading way it may exercise its role of assessing merit of a climate-related strategy or target.

Seeking professional advice

Draft RG 000.29 outlines that where required, reporting entities should seek professional advice to ensure compliance with the sustainability reporting requirements under the Corporations Act. However, a footnote states that a reporting entity's auditor should not provide this advice, and the auditor must be independent from the reporting entity it audits.

We recommend that this footnote be removed as there are permissible services that auditors may provide without compromising independence, in line with APES 110. APES 110 Section 600 sets out obligations for the provision of non-assurance services to an audit client and outlines several permissible service categories. The obligation is for the entity's auditors to ensure that relevant independence standards are complied with when providing professional advice.

Disclosure of non-audit services

Section 300(11B) of the Corporations Act 2001 requires a listed company to include specific information of non-audit services provided and fees paid to the auditor of the financial report. AASB 1054.10-11 and AASB 1060.98-99 require entities to provide specific auditor fee disclosures in the notes to the financial report.

A sustainability report under Chapter 2M will be subject to assurance by the auditor of the financial report and other assurance services as permitted by APES 110.

In the past, ASIC has informally encouraged a certain categorisation for the disclosure of fees to auditors to aid in the consistent and transparent reporting of audit and non-audit fee information as required the Corporations Act and accounting standards.

KPMG has previously advocated in its submissions to various inquiries including our recent response to Treasury's *Review into the regulation of accounting, auditing and consulting firms in Australia*[1] for a clear mandate of disclosure of 'financial statement audit', 'other assurance and audit-related services' and 'non-audit services' in company annual reports which specify the nature of any non-audit and assurance services provided.

Our guide to annual reports[2], includes illustrative disclosures on auditors' remuneration that go beyond the disclosure requirements of the accounting standards, splitting them between audit/review of financial statements, regulatory assurance and other assurance services as well as other non-assurance services.

KPMG considers that services provided to clients outside the financial statement audit such as 'assurance' and 'audit related services' are complementary to the audit and do not create an actual or perceived threat to auditor independence. Rather, they will be increasingly important as the Government implements its climate related financial disclosure regime.

Given sustainability reporting is an area where significant assurance activity is anticipated, we would welcome ASIC's guidance on how entities best present this information in their annual financial report disclosures to effectively meet an entity's reporting requirements, ensuring the principles of consistency and transparency continue to be met.

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[1] KPMG Submission - Treasury review into regulation of accounting, auditing and consulting firms in Australia
[2] Example financial statements for public companies - KPMG Australia

Application of jurisdiction relief and interaction between NGER and ASRS

AASB S2 allows for entities to disclose their greenhouse gas emissions using a measurement method that is different from the Greenhouse Gas Protocol if that entity is required by a jurisdictional authority to use that different method. In Australia, entities that are required to measure greenhouse gas emissions using the National Greenhouse and Energy Reporting (NGER) methodology are able to apply this jurisdiction relief.

Reporting Transfer Certificates (RTCs) allow an entity with operational control over a facility to transfer NGER reporting obligations to another entity involved with the facility. KPMG recommends that guidance be provided as to whether emissions subject to RTCs are included or excluded from Greenhouse Gas emission disclosures required by AASB S2 by the entities involved. In particular, consideration should be given to whether the RTCs represent a 'method of measuring' emissions when applying the jurisdiction relief per AASB S2.29(a)(ii) to entities reporting under NGER.

Guidance on undue cost and effort

AASB S2 allows for the omission of information where there is 'undue cost or effort' or where 'impracticable'. Given the risks of 'greenhushing' or under disclosure, we would support ASIC providing guidance or clarifying how it will assess these aspects with its role as regulator for the sustainability regime.

Limited versus reasonable assurance

Reporting entities will need their sustainability reports to be assured in accordance with the proposed AUASB assurance roadmap. To ensure clarity in both sustainability and assurance reports regarding the level of assurance provided, entities should clearly indicate whether disclosures are assured or unassured, and specify the level of assurance provided (e.g., limited or reasonable assurance).

The assurance report should provide detailed information outlining the scope, criteria, and level of assurance for each disclosure. Developing guidance materials, including example assurance reports, would facilitate consistency, with such guidance best provided by the AUASB. Additionally, there is an opportunity to educate users of sustainability reports on the differences between limited and reasonable assurance to manage expectation gaps.

Resourcing

Given the timing of sustainability reporting and assurance occurring at the same time as the financial statement audit, which we are supportive of, policymakers may want to consider whether reporting deadlines for entities captured by Corporations Act requirements are staggered to smooth reporting and assurance workloads across the year. For example, in the UK, Main Market listed companies publish their annual reports within 4 months of the financial year-end, Alternative Investment Market (AIM) listed companies within 6 months and unlisted companies within 9 months. While this is not the subject of this consultation, the three reporting deadlines would not only improve the health and wellbeing of our people across audit busy season, but also help alleviate future resourcing challenges.

Further to the above, consideration could be given to allowing sustainability assurance practitioners, who are accredited by the Clean Energy Regulator (CER) but are not registered company auditors, to serve as lead auditors of assurance engagements over sustainability reports. This could help address potential resourcing challenges during the reporting period.

The appointed auditor (whether a firm, audit company, or individual) under Division 6 of Part 2M.4 of the Act audits both the Financial Report and the Sustainability Report for a financial year. The above change could be accommodated, given that in the case of an audit firm or audit company, the individual lead auditor for the Financial Report does not need to be the same individual signing the assurance report on the Sustainability Report (therefore this second individual could be the CER registered sustainability assurance practitioner).