

## AGENDA PAPER

**Item Number:** 12  
**Date of Meeting:** 23 September 2022  
**Subject:** Update on Sustainability

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Action required     For discussion     For noting     For information

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### Purpose

To provide the Board with an update on international and Australian developments in Sustainability.

### Background

There has been increased demand for sustainability and ESG reporting and assurance from investors, those charged with governance, the public and other stakeholders. However, the gap between stakeholders' needs and what organisations report under current voluntary frameworks and the lack of standardised disclosures across industries and jurisdictions has increased the impetus for a globally accepted sustainability-related reporting framework.

The sustainability regulatory environment is rapidly evolving, meaning professional accountants must increase their awareness of the reliability of information and potential risks and threats arising from ESG reporting and assurance. They must maintain professional competence and ensure their skills and knowledge are transferrable to non-financial reporting and its integration with financial reports and that disclosures are transparent, appropriate, and not misleading.

An update was provided at the November 2021 Board meeting on sustainability and ESG reporting ([Agenda Item 5](#)), including the launch of the International Sustainability Standards Board (ISSB) at the November 2021 COP 26 UN Climate Change Conference in Glasgow by the International Financial Reporting Standards (IFRS) Foundation.

A further update was provided at the June 2022 meeting ([Agenda Item 6](#)), including the following:

- the ISSB's first two proposed standards issued in March 2022 on general sustainability-related and climate-related disclosure requirements; and
- the establishment of the International Ethics Standards Board for Accountants (IESBA) Sustainability Working Group in March 2022, Chaired by IESBA Board Member, Mark Babington (UK FRC).

## Recent Developments

APESB Technical Staff have continued monitoring international and Australian developments in sustainability and ESG reporting outlined below.

### 1. International Developments

#### ***The IFRS Foundation and ISSB***

On 5 August 2022, the [ISSB announced](#) it received over 1,300 submissions, 600 on its draft [Climate-related disclosures standard](#) and almost 700 on its draft [General Sustainability-related disclosures standard](#), from accounting bodies, audit firms, investors, preparers, public interest bodies, regulators and standard setters from various jurisdictions spanning six continents. In addition, ISSB engaged with thousands of global stakeholders during the 120-day comment period and will consider comments at upcoming Board meetings.

On 1 August 2022, the IFRS Foundation [announced](#) the consolidation of the Value Reporting Foundation (VRF) into the IFRS Foundation. Staff and resources of the VRF and Climate Disclosure Standards Board (consolidated into the IFRS Foundation in January 2022) will support the new ISSB.

The VRF's Sustainability Accounting Standards Board standards will be embedded into ISSB standards and the VRF's Integrated Reporting Framework (IRF) will help connect financial statements and sustainability-related financial disclosures. The IASB and ISSB are jointly responsible for the IRF and will collaborate to integrate it into standard-setting projects.

#### ***International Auditing and Assurance Standards Board (IAASB)***

The IAASB's 26 July 2022 [submission](#) to the ISSB supports the ISSB's establishment and efforts to promote high-quality, globally consistent sustainability reporting. The IAASB's submission focuses on the assurance of sustainability reporting and highlights the IAASB's intention to coordinate closely with IESBA while developing assurance standards for sustainability reporting. The IAASB is undertaking research to understand better the implications and future actions to address assurance on sustainability/ESG reporting and will consider a project plan in September 2022.

#### ***IESBA***

The IESBA's 22 June 2022 [submission](#) to the ISSB expresses their common aspirations regarding stakeholder trust and the use of globally relevant and comparable sustainability-related disclosures that are appropriately assured. The IESBA requests the ISSB to advocate the importance of high standards of ethical behaviour, and the role and contributions of the IESBA Code required for trustworthy sustainability reporting. The IESBA promotes the IESBA Code, working synergistically with the ISSB and IAASB standards.

At the June 2022 meeting, the IESBA [unanimously resolved](#) to develop fit-for-purpose, globally applicable ethics and independence standards as a crucial part of the infrastructure needed to support transparent, relevant and trustworthy sustainability reporting. The IESBA recognises the need to adapt swiftly and will coordinate closely with the IAASB and ISSB.

The IESBA also [approved](#) the Sustainability Working Group's Terms of Reference. The working group will:

- develop a strategic vision to guide IESBA standard setting on sustainability reporting and assurance and a project plan for consideration at the December 2022 meeting;
- undertake awareness-raising activities highlighting the IESBA Code's applicability to sustainability reporting and assurance; and
- conduct fact-finding and stakeholder outreach to inform IESBA's work.

The IESBA Sustainability Working Group will propose the following recommendations for deliberation and consideration at the IESBA Board meeting on 12-16 September:

1. revise the IESBA Code to provide specific ethics requirements and guidance for PAIBs and PAPPs that prepare and produce sustainability information/data;
2. provide specific criteria to explain which independence provisions (i.e., Part 4A or Part 4B) should be used when assuring sustainability information; and
3. consider the need for a holistic review of Part 4B of the Code.

The first two proposals are considered to be immediate priorities with a view to developing an Exposure Draft by September 2023. The third proposal is a longer-term project to be informed by extensive outreach.

#### *IESBA Technical Staff publication on Greenwashing*

The IESBA also considered at the June 2022 meeting Technical Staff's development of a publication on '*Guidance to address concerns about greenwashing*' and the application of the IESBA Code. The Board supported issuing the document and provided input and comments concerning the draft document. The draft greenwashing publication was also circulated to Staff of the IAASB, IFAC, IOSCO, GRI and UK FRC for comments.

The IESBA will consider an updated draft of the IESBA Staff Publication '[Guidance to address concerns about Greenwashing](#)' at its September 2022 Board meeting. It is expected that this publication will be issued in October 2022.

A verbal update of the outcomes from IESBA's September 2022 meeting will be provided at the APESB's meeting.

#### ***U.S Securities and Exchange Commission***

The [U.S. SEC's proposal on enhanced climate disclosures](#) in March 2022 included disclosures on climate-related risk and relevant risk management processes to support a global system for delivering consistent, comparable and assurable sustainability information.

The public comment period ended on 17 June 2022, and almost fifteen thousand comments were received. Whilst it appears over twelve thousand were 'form letters' (88% of which supported the proposals), there were over two thousand individualised submissions (53% of which supported the proposals, 43% were opposed, and the balance did not have clear positions). The SEC is expected to respond later this year.

## ***European Commission***

As noted at the June 2022 Board meeting ([Agenda Item 6](#)), in February 2022, the European Commission adopted a proposed [Directive on Corporate Sustainability Due Diligence](#) closely interlinked with the [Corporate Sustainability Reporting Directive](#) (CSRD) adopted in April 2021.

On [21 June 2022](#), the Council and European Parliament reached a provisional political agreement on the CSRD, which amends the 2014 non-financial reporting directive and introduces more detailed reporting requirements and a certification requirement by an accredited independent auditor or certifier that the information complies with the certification standards. The application of the regulation will occur in three stages:

- 1 January 2024 for companies already subject to the non-financial reporting directive;
- 1 January 2025 for large companies not presently subject to the non-financial reporting directive; and
- 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings.

The provisional agreement is subject to approval by the Permanent Representatives Committee and enters force 20 days after publication in the Official Journal of the EU.

## **2. Australian Developments**

### **AASB**

The Australian Accounting Standards Board (AASB) released an [exposure draft](#) in April 2022 to gather Australian feedback on the ISSB's Exposure Drafts and the appropriateness of the AASB's approach to sustainability-related financial reporting in Australia. The AASB received [34 comment letters](#) to be considered at a future board meeting.

In June 2022, the AASB published an [article](#) outlining the AASB's proposed approach to developing sustainability-related financial reporting standards in Australia. The AASB will develop a suite of standards specifically addressing sustainability-related financial disclosures as part of general purpose financial reporting, using the ISSB standards as a baseline, modified to suit Australian matters, requirements and stakeholder needs.

### **AASB and AUASB joint submission to the ISSB**

On 28 July 2022, the AASB and the Auditing and Assurance Standards Board (AUASB) made a [joint submission](#) on the ISSB's Exposure Drafts, supporting the establishment of the ISSB and its ongoing efforts to address the globalisation and standardisation of sustainability-related financial reporting. In formulating their response, the AASB and AUASB gathered feedback from Australian stakeholders, including an AASB survey and exposure draft (refer above), roundtables in Melbourne on 30 and 31 May 2022, and virtual industry focused roundtables on 1 and 2 June 2022.

The AASB and AUASB believe the two exposure drafts will not, in their current form, achieve the intended objective of improving consistency, comparability and transparency of sustainability-related financial reporting.

The main concerns raised in their submission were:

- lack of a definition of what is meant by 'sustainability';
- small-to-medium entities would be unable to apply the standards due to the complexity and scale of reporting needed for compliance;
- the General Sustainability-related Disclosures standard should focus on general requirements, and a conceptual framework should be developed separately;
- greater clarity is required on the proposed value chain definition and boundary of reporting;
- whether the definition of material will be consistently applied in the context of sustainability-related reporting; and
- lack of clarity around the interaction of sustainability-related disclosures and general purpose financial statements.

#### Australian Sustainability Working Groups

Since last year, the AASB and AUASB's [Sustainability Reporting Project Advisory Panel](#) has generally met monthly to monitor international developments and provide input to the Technical Staff of the AASB and AUASB. Additionally, from April 2022, the standard setters and professional bodies meet monthly to monitor and discuss standard-setting and profession-wide sustainability issues. The CEO is APESB's representative on both of these working groups.

#### Australian Securities and Investments Commission

ASIC released its [Corporate Plan](#) and priorities for 2022-2026 on 22 August 2022. One of the four external strategic priorities is Sustainable Finance and supporting the market through proactive supervision and enforcement of governance, transparency and disclosure standards.

ASIC Chair, Joseph Longo stated in his [speech](#) on 23 August 2022 to the Committee of Economic Development of Australia that firms will be expected to explain how sustainability has been taken into account with clear and specific language and ASIC is "*actively monitoring the market, looking for dubious claims (also known as 'greenwashing')*".

#### AFR ESG Summit 2022

Jon Reid, APESB Senior Technical Manager, attended the Australian Financial Review ESG Summit on 15 June 2022 in Sydney, covering the ESG challenges faced by companies and investors as Australia transitions towards net zero (refer to Agenda Item 12(a) for further details).

### **Small and Medium Practices (SMPs)**

SMPs will need to ensure they maintain professional competence and knowledge of future changes to professional and ethical, sustainability and assurance standards. Further, the AASB and AUASB joint submission to the ISSB believes SMPs would be unable to apply the ISSB standards in their current form due to the complexity and scale of reporting needed for compliance. Technical Staff will continue to monitor any SMP-specific impacts.

## Way Forward

Based on the IESBA's Agenda papers for the September 2022 meeting, IESBA is assessing several options to revise the Code to address the ethics and independence issues relating to sustainability reporting and assurance. IESBA Taskforce expects to develop a project proposal to revise the Code for IESBA's December 2022 meeting. Accordingly, it is best if the Code-related changes are left for IESBA to deal with globally.

The CEO will provide a verbal update on the outcomes from the IESBA's September meeting at the APESB meeting on the 23<sup>rd</sup> of September 2022.

### Potential actions for the APESB

- Continue APESB's engagement with the Australian Sustainability Working groups
- performs a high-level review of its other pronouncements to identify where sustainability-related issues may impact them;
- Consider the development of guidance or non-authoritative material for professional accountants in business or SMPs.

For example, sustainability-related information and considerations will likely impact the following APESB pronouncements.

- APES 225 – Valuation Services – ESG considerations when valuing entities
- APES 220 – Taxation Services – ESG considerations when complying with tax obligations
- APES 315 – Compilation of Financial Information – Impact of SMPs reporting on ESG metrics
- APES 350 – Due Diligence Committees – Impact of ESG considerations in acquisitions and mergers

Therefore, technical Staff propose to develop a project proposal to review the existing APESB pronouncements (other than the Code) for the Board's December meeting.

Technical Staff will continue to keep a watching brief and monitor Australian and international developments in sustainability reporting and assurance from an ethical perspective. Where appropriate, APESB will participate and influence global and local developments in sustainability reporting and assurance when it impacts or interrelates with ethical standards.

## Recommendations

That the Board note the update on the developments in sustainability globally and Australia.

The Board provide its views on the development of:

- a project proposal to commence a review of APESB's other pronouncements; and
- a proposal to issue a staff-level guidance document to guide ethical considerations concerning sustainability-related issues for a professional accountant in business or SMPs.

**Material Presented**

Agenda Item 12 (a) AFR ESG Summit Summary

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