

AGENDA PAPER

Item Number: 4
Date of Meeting: 26 June 2024
Subject: Update on Sustainability

Action required For discussion For noting For information

Purpose

To provide the Board with an update on recent International and Australian sustainability-related developments.

Background

APESB is currently monitoring international and Australian sustainability-related developments to inform its upcoming project on sustainability, which will be based on the outcomes of the International Ethical Standards Board for Accountants' (IESBA's) current project on sustainability.

Key developments in relation to sustainability previously advised to the Board include:

- The International Sustainability Standards Board (ISSB) issued two standards in June 2023: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. The standards are effective from 1 January 2024, subject to adoption in individual jurisdictions (BM 121 (Aug 23) [Agenda Item 7](#));
- the IAASB issued its exposure draft on the proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements* for public consultation on 2 August 2023 (BM 121 (Aug 23) [Agenda Item 7](#));
- the Australian Treasury is undertaking a staged consultation process on climate-related financial disclosure in Australia. Updates on the first stage of the consultation were in (BM 118 (Feb 23) [Agenda Item 7](#)) and for the second stage in BM 121 (Aug 23) [Agenda Item 7](#); and
- the IESBA agreed at their June 2023 Board Meeting to incorporate the profession-agnostic ethics and independence standards for sustainability assurance in a new part 5 of the Code (BM 121 (Aug 23) [Agenda Item 7](#)) with the IESBA issuing two exposure drafts related to sustainability assurance (BM125 (Mar 24) [Agenda Item 5](#)); and
- the Australian Accounting Standards Board (AASB) released an Exposure Draft [ED SR1](#), which proposes climate-related financial disclosure requirements through three draft Australian Sustainability Reporting Standards (BM 124 (Nov 23) [Agenda Item 7](#)).

International and other Developments

International Organisation of Securities Commissions (IOSCO)

IOSCO comments on the IESSA Exposure Draft

On 10 May 2024, IOSCO published its comments on its review of the IESBA's Proposed International Ethics Standards for Sustainability Assurance (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting. The IOSCO outlined its overall support for the projects but noted that further consideration is needed in developing its final standard relating to the definition of sustainability information, the scope of International Independence Standards, NOCLAR, Group Sustainability Assurance engagements, Value Chain and Transparency when reporting on PIEs. Further information on the comments from the IOSCO can be found in the IOSCO's [Press Release](#).

International Ethics Standards Board for Accountants (IESBA)

IESBA March Meeting

At the [IESBA March 2024 Board Meeting](#), the Board considered an update from the International Auditing and Assurance Standards Board (IAASB) regarding the feedback received on ED-5000 as it related to matters subject to IAASB-IESBA coordination and the IAASB's tentative direction forward on these matters. The IAASB and IESBA will continue coordinating closely on matters related to sustainability assurance at the staff and Board member liaison levels until the projects are completed. The IAASB is targeting approval of ISSA 5000 as a final standard at its 16-20 September 2024 meeting.

International Public Sector Accounting Standards Board (IPSASB)

Project for Climate-related disclosures Standard for public sector

In June 2023, IPSASB announced the commencement of a project to develop a public sector climate-related disclosure standard to meet the needs of users of public sector sustainability reports. The IPSASB agreed that a government's ability to set policy is unique to the public sector, and specific guidance for governments' policy-setting activities that influence other entities, including other economic sectors, is necessary. The ED for this project is under development, and IPSASB plans to issue it in Q4 2024.

Further information on this project can be found in IPSASB's [News](#) and [Work Program](#).

International Sustainability Standards Board (ISSB)

Publication of Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards

On 28 May 2024, the ISSB published a [Jurisdictional Guide for the adoption or other use of ISSB Standards](#) (the Guide). The Guide aims to show market participants how jurisdictions are progressing towards delivering globally consistent and comparable sustainability-related information. It acknowledges various ways in which jurisdictions may use the ISSB Standards, as set out in the IOSCO endorsement decision. The Guide also describes various jurisdictional approaches to the adoption or other use of ISSB Standards, including full adoption, partial adoption and permission to use. Further information on this Guide can be found in IFRS Foundation's [News](#).

Publication of Regulatory Implementation Programme Outline

On 28 May 2024, the IFRS Foundation published a [Regulatory Implementation Programme Outline](#), summarising the tools, educational materials, and capacity building the IFRS Foundation intends to provide in collaboration with its partners to support the growing number of jurisdictions seeking to make policy decisions and design and execute their roadmaps for the adoption or other use of ISSB Standards. Further information of this Outline can be found in IFRS Foundation's [News](#).

Collaboration between IFRS Foundation and Global Reporting Initiative (GRI) on Sustainability Reporting

On 24 May 2024, ISSB and the Global Sustainability Standards Board (GSSB) announced that they have committed to jointly identify and align common disclosures that address information needs under the distinct scopes and purposes of their respective standards for both thematic and sector-based standard-setting. An initial outcome of the collaboration will involve a methodology pilot building on the recently published GRI 101 Biodiversity Standard and the ISSB's upcoming project on Biodiversity, Ecosystems and Ecosystem Services.

Further information can be found in the IFRS Foundation's [News](#).

ESRS-ISSB Standards Interoperability Guidance

On 2 May 2024, The IFRS Foundation and EFRAG published [ESRS-ISSB Standards Interoperability Guidance](#) to illustrate the high level of alignment achieved between the ISSB Standards and the European Sustainability Reporting Standards (ESRS) and how a company can apply both sets of standards, including detailed analysis of the alignment in climate-related disclosures. The guidance:

- describes the alignment of general requirements, including key concepts such as materiality, presentation and disclosures for sustainability topics other than climate; and
- provides information about the alignment of climate disclosures and what a company starting with either set of standards needs to know to enable compliance with both sets of standards.

Further information can be found in the IFRS Foundation's [News](#).

IFRS issued IFRS Sustainability Disclosure Taxonomy 2024

On 30 April 2024, [the IFRS Sustainability Disclosure Taxonomy 2024](#) was published to reflect the disclosure requirements of the IFRS Sustainability Disclosure Standards as issued by the International Sustainability Standards Board (ISSB).

The IFRS Sustainability Disclosure Taxonomy 2024 reflects disclosure requirements arising from IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, issued in June 2023, and IFRS S2 *Climate-related Disclosures*, issued in June 2023 and their accompanying guidance.

Further information can be found in the IFRS Foundation's [News](#).

Transition Implementation Group (TIG) Meetings and Podcast on IFRS 1 and IFRS 2

The ISSB's TIG held meetings on 15 March 2024 and 13 June 2024 to discuss the application of certain paragraphs of IFRS Sustainability Disclosure Standards and related materials. Further information on these meetings can be found in IFRS Foundation's [Meetings](#) or in a new podcast series available [here](#).

Sustainability Innovation Lab

The [Sustainability Innovation Lab \(SIL\)](#) was founded by GRI and its convening partner, the IFRS Foundation, and launched in November 2023. It is based in Singapore and will be managed by a Steering Committee comprised of GRI and IFRS Foundation Leadership representatives. The SIL is still in the preliminary stages of establishment, and members of the Steering Committee have not been appointed.

The mission of the SIL is to provide its members with technological and digital solutions, fuel sustainable entrepreneurship, connect peers globally, network with sustainability experts, and support professionals and SMEs. The SIL is an open platform where any relevant topics can become part of its work plan, with the initial focus being on four research platforms: interoperability, accountability, public sector and SME.

The SIL plans to organise workshops and roundtables to enable companies to meet their evolving sustainability disclosure requirements, fostering professional development, training, and practical solutions. However, you need to be a member of SIL (or collaborate with SIL) to participate in these workshops or roundtables.

International Auditing and Assurance Standards Board (IAASB)

Updates on the Proposed International Standard on Sustainability Assurance (ISSA 5000)

At the March 2024 IAASB meeting, the board considered the analysis and drafting proposals related to 15 of the 27 questions posed in their exposure draft on the proposed ISSA 5000. The matters considered fell into the following themes:

- Scope and applicability of proposed ISSA 5000.
- Sustainability matters, sustainability information and disclosures.
- Relevant ethical requirements and quality management standards.
- Materiality.
- Engagement team, using the work of others and “group” engagements.
- Limited and reasonable assurance – structure of the standard and work effort relating to each type of engagement.
- Other matters (including connectivity between the sustainability information and the audited financial statements and requirements relating to “Other Information”).

Analysis of responses to the remaining 12 questions, along with proposed revisions for the complete draft standard, will be discussed at the June 2024 IAASB meeting. The IAASB intends to approve the final standard in September 2024, with publication before the end of 2024.

Further information on the proposed ISSA 5000 can be found on IAASB's [website](#).

International Federation of Accountants (IFAC)

IFAC published a study of sustainability reporting and assurance of the largest global companies with AICPA and CIMA

In February 2024, IFAC, the AICPA, and CIMA published the report, [The State of Play: Sustainability Disclosure and Assurance 2019-2022, Trends and Analysis](#). The report highlights the need for companies worldwide to move toward a global system of sustainability disclosure requirements. The study found the use of varying sustainability standards and frameworks continues to make it difficult for investors, lenders, and other stakeholders to find consistent and comparable sustainability information. The study found over half of companies use the Sustainability Accounting Standards Board (SASB) Standards and the Task Force on Climate-related Financial Disclosures (TCFD) Framework, which should ease the transition to the International Sustainability Standards Board (ISSB) standards, which were released last year. Further information can be found in IFAC's [Media Release](#).

Four Key Areas for Equipping Professional Accountants for Sustainability

In April 2024, IFAC released a new publication - [Equipping Professional Accountants for Sustainability: What's New and What Hasn't Changed](#) - setting out four key areas (namely Technical expertise, Business Acumen, Behavioral Competence, Ethics and Professional Values) where accountants need to update their knowledge to meet the growing demand for high-quality sustainability-related information. Further information can be found in IFAC's [Media Release](#).

IFAC proposes changes to the International Education Standards for Sustainability

In April 2024, IFAC published an [exposure draft](#) on proposed revisions to the International Education Standards (IES) 2,3 and 4 to embed sustainability. Key proposals include:

- Emphasising working with experts and in multi-disciplinary teams;
- Introducing key sustainability reporting concepts, such as systems thinking, value chains and scenario analysis;
- Referencing relevant sustainability reporting and assurance standards; and
- Creating a new assurance competence area and learning outcomes.

The consultation period ends on 24 July 2024. Further information can be found in IFAC's [Media Release](#).

Financial Reporting Council (FRC UK)

FRC UK launches market study of sustainability assurance services

On 21 March 2024, the FRC UK announced the launch of its first market study to examine the UK market for sustainability assurance services. The study into the market for the assurance of sustainability reporting will focus on how well the UK sustainability assurance market is functioning, whether this market is delivering desirable outcomes, including high-quality assurance with minimal burdens and costs on business, and how the market may develop in the future. This market study will centre on the impact of sustainability assurance across UK companies, considering how sustainability assurance impacts companies, investors and the wider assurance market.

Responses closed on June 13, 2024. The market study is expected to conclude in early 2025. Further information can be found on the FRC UK's [website](#).

European Financial Reporting Advisory Group (EFRAG)

EFRAG proposes simplified Sustainability Reporting Standards SMES

On 22 January 2024, the EFRAG issued [exposure drafts](#) (EDs), which propose a simplified sustainability reporting standard for listed SMEs (LSME ED) and a voluntary sustainability reporting standard for non-listed SMEs (VSME ED).

The purpose of LSME ED is to set reporting requirements that are proportionate and relevant to the scale and complexity of the activities, as well as to the capacities and characteristics of listed SMEs. The VSME ED proposes a simple reporting tool to assist non-listed micro-, small- and medium-sized enterprises (non-listed SMEs) in responding to sustainability information requests that they receive from business counterparts (i.e. banks, investors, or larger companies for which SMEs are suppliers), efficiently and proportionately.

The consultation period for the EDs ended on 21 May 2024.

Australian Accounting Standards Board (AASB)

Australian Sustainability Reporting Standards

At their June 2024 Board Meeting, the AASB considered stakeholder feedback received on the draft ASRS 1. The Board decided to:

- (a) prepare a non-mandatory ('voluntary') ASRS 1 that would cover sustainability-related financial disclosures rather than limit ASRS 1 to climate-related risks and opportunities as a mandatory Standard – the voluntary Standard ASRS 1 would have the same scope as IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*;
- (b) prepare a mandatory ASRS 2 that would incorporate the necessary content presented in [draft] ASRS 1 to make ASRS 2 function as a standalone, climate-only Standard; and
- (c) align ASRS 2 with the baseline of IFRS S2 *Climate-related Disclosures* without modification with respect to specific aspects of the draft ASRS 2

The Board will address further aspects of the draft ASRS at future meetings. Further information is available in the [AASB Action Alert](#) for the June 2024 Board Meeting.

Auditing and Assurance Standards Board (AUASB)

AUASB's consultation paper for "Assurance over climate and other sustainability information"

In late March 2024, AUASB published a consultation paper, *Assurance over climate and other sustainability information*. The AUASB issued a revised consultation paper on 4 April 2024 following the announcement on 27 March 2024 that mandatory climate reporting by Group 1 entities will start from years commencing 1 January 2025 (previously years commencing 1 July 2024).

The consultation paper sought feedback to assist the AUASB in:

- developing a proposed model for phasing in assurance over mandatory climate information;
- finalising its proposal to adopt ISSA 5000 *General Requirements for Sustainability Assurance Engagements in Australia* and
- developing a possible local pronouncement to supplement the final ISSA 5000 under the Australian reporting framework

The closing date for comments was 3 May 2024.

At their Board meeting on 23 May 2024, the AUASB discussed the feedback received from the consultation. The AUASB Members supported the adoption of ISSA 5000 (subject to seeing the final standard) and the development of a local pronouncement. The AUASB discussed the local exposure draft with a plan to release an exposure draft in July or August 2024 with the objective of issuing an Australian assurance pronouncement by the end of 2024. Further information on the discussion by the AUASB can be found in the [highlights](#) from the AUASB meeting.

Australian Securities and Investments Commission (ASIC)

Court finds Active Super made misleading ESG claims in a greenwashing action brought by ASIC

On 5 June 2024, ASIC reported that The Federal Court had found LGSS Pty Limited, as trustee of the superannuation fund Active Super (**Active Super**), contravened the law in connection with various misleading representations concerning its environmental, social and governance (ESG) credentials.

Active Super claimed in its marketing that it eliminated investments that posed too great a risk to the environment and the community, including gambling, coal mining and oil tar sands. Following the invasion of Ukraine, Active Super also made representations that Russian investments were “out”. However, the Federal Court found that from 1 February 2021 to 30 June 2023, Active Super invested in various securities that it had claimed were eliminated or restricted by ESG investment screens. These securities were held by Active Super both directly and indirectly (via managed funds or ETFs).

The matter has been listed for a further hearing, at which the Court will consider the appropriate form of declaratory relief and, at a later date, the pecuniary penalty to impose for the conduct. Further information is available in ASIC’s [Media Release](#).

Australian Government - Treasury

Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024

On 27 March 2024, the climate-related financial disclosures Treasury Bill - *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (the Bill) was introduced into the House of Representatives. It was read a second time on 15 May 2024. The climate-related financial disclosures are in Schedule 4 of the Bill. Schedule 4 of the Bill empowers the AASB to issue internationally aligned sustainability reporting standards that require entities within the scope of the mandatory climate-related financial disclosure regime to prepare an annual sustainability report to disclose their climate risks and opportunities in accordance with the new reporting standards. The Bill is largely consistent with the Treasury’s exposure draft legislation released in January 2024. The main change is that the

commencement date for reporting is now proposed to be financial years beginning on or after 1 January 2025.

Further information on the Bill can be found on the Parliament [website](#).

Australian Government - Department of Finance

The Commonwealth Climate Disclosure requirements for Stream 2 companies

Stream 2 companies comprise all non-corporate Commonwealth entities (NCEs), corporate Commonwealth entities (CCEs) and smaller Commonwealth companies that do not meet the proposed thresholds for mandatory reporting under the climate-related financial disclosure reform for Australia's large businesses and financial institutions. These Commonwealth entities and Commonwealth companies are required to make climate disclosures in their annual reports following the Commonwealth Climate Disclosure requirements, which the Department of Finance is developing. These requirements will set out reporting obligations and will align with the climate disclosure standards set internationally by the ISSB and nationally by the AASB with specific tailoring to account for the differences in the structure, objectives and functions of Commonwealth entities and Commonwealth companies.

Commencement of climate disclosure by Stream 2 companies will be phased over 4 years. Stream 2 companies will be divided into 4 tranches as part of the phased approach. Stream 2 will commence with a Commonwealth Climate Disclosure Pilot for all Departments of State in their FY2023-24 annual reports (tranche 0). Implementation will then be phased in according to entity type, size and profile (tranches 1, 2, then 3). All Commonwealth entities and Commonwealth companies will be required to publicly disclose their climate risks and opportunities in their FY2026-27 annual reports.

Further information on the Commonwealth Climate Disclosure requirements can be found in the Department of Finance's [Commonwealth Climate Disclosure](#).

APESB

APESB Roundtable on Sustainability Reporting and Assurance and Use of External Experts

On 26 March 2024, APESB held a roundtable event to seek stakeholder feedback of IESBA's Exposure Drafts on Sustainability Reporting and Assurance and Use of External Experts. The stakeholders who attended the roundtable included standard setters, regulators, professional accounting bodies, accounting firms and consultants. The feedback gathered assisted APESB in preparing its submissions to IESBA. The presenters were Nancy Milne OAM (the Chairman of APESB), Channa Wijesinghe (the CEO of APESB and IESBA Member) and Geoff Kwan (IESBA Director). The roundtable presentation is available on [APESB's website](#).

Submissions to IESBA's Exposure Drafts for Sustainability and Using the Work of an External Expert

On 3 May 2024, APESB made a [submission](#) on IESBA's Exposure Draft on Using the Work of an External Expert. APESB supported this ED and believed the proposed revisions would enhance the credibility of professional activities performed by professional accountants and sustainability assurance practitioners, which involve the use of external experts. However, APESB suggested some refinements to requirements and additional guidance on key matters would assist professional accountants and sustainability assurance practitioners in clarifying how to implement the proposals in practice.

On 30 May 2024, APESB made a [submission](#) on IESBA's Exposure Draft on Proposed International Ethics Standards for Sustainability Assurance (IESSA). APESB supported the establishment of robust independence standards of ethical conduct that apply to all sustainability assurance engagements, regardless of the profession of the assurance provider. APESB's recommendations to the IESBA included the development of additional guidance across the new Part 5 to assist sustainability practitioners in the practical application of the IESSA and further clarification of the independence considerations relevant to Value Chain Entities.

Invitation to nominate for APESB Sustainability Taskforce

The APESB is establishing a Sustainability Task Force to provide APESB with information and knowledge on sustainability-related matters. The APESB Sustainability Taskforce will consider the IESBA pronouncements on sustainability and determine how these professional and ethical standards can be applied in Australia, taking into consideration the Australian Reporting and Assurance Frameworks.

Applications for membership in the Taskforce can be made up until 30 June 2024. Further information is available on the APESB [website](#).

Recommendation

That the Board note the update on sustainability-related developments.

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