

## AGENDA PAPER

**Item Number:** 5  
**Date of Meeting:** 26 November 2021  
**Subject:** Emerging Issue: Sustainability and ESG Reporting

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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 Sustainability and Environmental, Social and Governance (ESG) reporting and international and Australian developments.

### Background

There has been increased demand for sustainability and ESG reporting from investors, those charged with governance, the public and other stakeholders. However, there is an apparent gap between stakeholders' needs and what organisations report with the current frameworks and guidelines. In addition, the lack of standardised disclosures across industries and jurisdictions has increased the need for a globally accepted sustainability-related reporting framework.

The regulatory environment around sustainability is rapidly evolving, making it crucial for professional accountants to increase their awareness and education on the reliability of information and potential risks and threats arising from ESG reporting. They must maintain professional competency by ensuring their skills and knowledge are transferrable to non-financial reporting and its integration with financial reports. Further, the information disclosed should be transparent, appropriate, and not misleading.

### Matters for Consideration

#### Current ESG Frameworks

There are several frameworks established since 1997 used by organisations to disclose sustainability-related information and are applied voluntarily:

- GRI – [Global Reporting Initiative](#)
- SASB – [Sustainability Accounting Standards Board](#)

- IIRC – [International Integrated Reporting Council](#)
- TCFD – [Taskforce on Climate-Related Disclosures](#)
- CDP – [Carbon Disclosure Project](#)
- CDSB – [Climate Disclosure Standards Board](#)
- SDGs – [UN Sustainable Development Goals](#)

A June 2021 [International Organization of Securities Commissions \(IOSCO\) report](#) noted the most commonly applied guidelines/frameworks are the GRI, SASB, SDGs, and TCFD.

The separate frameworks were established for different audiences and purposes, creating ambiguity for entities without consensus on which framework should be applied, resulting in inconsistencies. Reports may also use a hybrid approach or multiple frameworks where it may favour their own purposes. There is also a lack of sufficient practical guidance or linkage of sustainability disclosures to financial statements.

The International Federation of Accountants (IFAC), American Institute of Certified Public Accountants (AICPA) and Chartered Institute of Management Accountants (CIMA) June 2021 report [The State of play in sustainability Assurance](#) includes benchmarking of the current market practice of assurance of ESG or sustainability reporting. It notes around 91% of the 1,400 large companies reviewed are publishing some level of sustainability information. However, only 51% of those companies obtained assurance on that information and 83% of those are limited assurance reports.

These issues have driven the need to establish global sustainability assurable reporting standards to bridge these gaps.

#### Establishment of the International Sustainability Standards Board (ISSB)

[IFAC's new sustainability building block approach](#) was set out in May 2021 to satisfy the demands of investors and other stakeholders through a multi-stakeholder and investor focus to deliver "*a global system for consistent, comparable and assurable sustainability-related information.*" In addition, on 22 July 2021, [IFAC welcomed](#) the IFRS Foundation's constitutional amendments to establish a new ISSB under the IFRS Foundation's governance structure.

In September 2021, IFAC released its [Statement of Climate Change Information and the 2021 Reporting Cycle](#), which emphasises the materiality of climate change issues and professional accountants' critical role in complying with reporting requirements and aligning and integrating climate information disclosures. IFAC believes jurisdictions must examine how global standards to be developed by the ISSB can fit together with jurisdictional sustainability reporting requirements.

This was supported by IFAC's [framework for implementing global sustainability standards at the local level](#), also published in September 2021, which utilises the 'sustainability building blocks' approach consisting of:

- Block 1 – Investor focused ISSB IFRS Sustainability Standards on sustainability information that is material to enterprise value. These are voluntary in nature and require local mechanisms to implement and enforce the standards; and

- Block 2 – multi-stakeholder focused jurisdictional requirements on sustainability reporting.

At the COP 26 UN Climate Change Conference in Glasgow on 3 November 2021, [the IFRS Foundation announced](#):

- the launch of the ISSB to develop comprehensive global baseline sustainability disclosure standards in the public interest;
- consolidation of the CDSB and VRF into the new ISSB by June 2022; and
- the publication of prototype disclosure requirements developed by the Technical Readiness Working Group (TRWG) with representatives from the CDSB, International Accounting Standards Board (IASB), TCFD, VRF and the World Economic Forum, supported by IOSCO.

The ISSB will work closely with the IASB to ensure ISSB standards are compatible with IFRS accounting standards. The ISSB will focus on climate-related reporting and the development of sustainability disclosure standards.

The ISSB is independent of the IASB and the IFRS Foundation Trustees will oversee both Boards. The Trustees are in the process of appointing a Chair and Vice-Chair to the ISSB and will commence the recruitment for board members soon. ISSB's work will start shortly after the Chair and Vice-Chair's appointments.

### IESBA's Consideration of ESG

At the September 2021 International Ethics Standards Board for Accountants (IESBA) meeting, the Emerging Issues and Outreach Committee (EIOC) presented on ESG developments (refer Agenda Item 5(a)). In addition, an IFAC representative presented key findings from IFAC's global benchmarking study, [The State of Play in Sustainability Assurance](#).

The Board considered the role of professional accountants in providing reporting and assurance on ESG and potential ethical and independence issues. The key issues raised by the EIOC are set out below:

#### *Potential Ethics Issues Impacting the Code*

1. *Terminology* – the current definition of Professional Activity may not appropriately cover ESG matters and whether ESG reporting falls under financial/non-financial or other information and the language of the Code skewed to financial information.
2. *Knowledge and Skills* – Professional Accountant's competency to perform the work (e.g., measuring carbon footprint).
3. *Use of Experts and Technology* – there is an increased risk that Professional Accountants will place undue reliance on experts and whether the Code's current guidance on using experts is appropriate.
4. *Materiality* – sustainability measures will require professional accountants to use qualitative measures instead of traditional quantitative measures to determine materiality.

### *Other Potential Independence Issues*

1. *Relevant provisions in Part 4B* – may need revisions to ensure sufficient guidance to reflect specific ESG assurance engagements and address independence threats.
2. *The distinction between PIEs and Non-PIEs* – Stakeholders may have greater expectations on ESG assurance engagements for Public Interest Entities (PIE).

The EIOC will provide its next update at the March 2022 IESBA Board meeting.

### Other Recent International Developments

There have been other significant global sustainability and ESG reporting developments, which are summarised in Agenda Item 5(b).

### Australian Developments

#### *AUASB*

The AUASB issued an Australian version of the IAASB's [Extended External Reporting \(EER\)](#) in August 2021 to assist Australian assurance practitioners applying ASAE 3000 (Revised) *Assurance Engagements Other than Audits or Review of Historical Financial Information*, including sustainability reporting. The AUASB is monitoring global developments of a coherent set of sustainability reporting standards and is prepared to enhance standards, frameworks and guidance as necessary.

#### *AASB*

The AASB considered sustainability at its November 2020 and June 2021 Board meetings and made joint submissions with the Financial Reporting Council (FRC) and AUASB on:

- [22 December 2020](#) to the IFRS Foundation's consultation paper on sustainability reporting. The submission highlighted the urgent demand for harmonisation, better disclosure and a global leader in this space, and if the Foundation emerges as this leader, it must manage various challenges; and
- [29 July 2021](#) on the IFRS Foundation's Exposure Draft on proposed amendments to its constitution to accommodate the ISSB. The submission commended the Foundation's initiative but raised concerns about articulating the proposed sustainability Board's plans and achievements and its relationship with the IASB.

The [AASB's Work Program](#) indicates the project's direction will be determined in H2 2022.

The AASB and AUASB have also established an Extended External Reporting (EER) Project Advisory Panel as a forum for open communication between the Boards and Stakeholder groups. In addition, the Australian Financial Reporting Council, jointly with the AASB and AUASB, is planning to release a Position Statement on Extended External Reporting and Assurance in the near future.

## CA ANZ & ACCA

Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) undertook research on AI, ethics and ESG with the support and guidance from the IESBA's Technology Working Group.

Based on a global survey of more than 5700 members and business leaders, the research is set out in [Ethics for Sustainable AI Adoption: Connecting AI and ESG](#). The rise of AI raises ethical and specific ESG issues, particularly in implementation. The report outlines key observations, ethical implications, and responsibilities across the ESG spectrum and how accountancy and finance professionals can drive AI's ethical and sustainable adoption.

### Way Forward

Technical Staff propose to maintain a watching brief and monitor:

- international developments in sustainability and ESG reporting;
- the implementation of the ISSB; and
- progress and developments from other standard setters (IESBA, AUASB and AASB).

### Recommendations

That the Board note the update on sustainability and ESG reporting.

### Materials Presented

Agenda Item 5(a) IESBA EIOC Presentation ESG and Ethics September 2021 BM  
Agenda Item 5(b) Summary of International Developments on Sustainability and ESG Reporting

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