



Accounting Professional & Ethical Standards Board

AGENDA PAPER

Item Number: 7

Date of Meeting: 23 February 2023

Subject: Update on Sustainability

Action required For discussion For noting For information

Purpose

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

Background

The sustainability regulatory environment is rapidly evolving, driven by the increased demand from investors, those charged with governance, the public and other stakeholders for sustainability and ESG reporting and assurance. However, the current frameworks are voluntary and not standardised across industries and jurisdictions. The complexity of multiple frameworks increases the risk of greenwashing and the information reported may lack reliability and comparability. Standard-setters globally and across various jurisdictions are working to develop sustainability reporting and assurance standards to address these concerns.

An update on sustainability was provided at the November 2021 Board meeting ([Agenda Item 5](#)), including on 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](#)), noting:

- the ISSB's first two proposed standards issued in March 2022 ([Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information \(Draft IFRS S1\)](#) and [Exposure Draft IFRS S2 Climate-related Disclosures \(Draft IFRS S2\)](#)); 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).

At the September 2022 meeting update ([Agenda Item 12](#)), it was noted that over 1,300 submissions were made to the ISSB on Draft IFRS S1 and S2 from accounting bodies, audit firms, investors, preparers, public interest bodies, regulators and standard setters from various jurisdictions spanning six continents.

At the December 2022 meeting ([Agenda Item 6](#)), Technical Staff provided an update on:

- the ISSB's deliberations on submissions received on Draft IFRS S1 and S2;
- the International Auditing and Assurance Standards Board's (IAASB) project to develop an overarching standard for assurance on sustainability reporting for all assurance practitioners (proposed ISSA 5000);
- IESBA's deliberations on addressing independence for sustainability assurance; and
- the APESB and the New Zealand External Reporting Board (XRB) joint letter to the IESBA on IESBA's proposed approach to developing ethics and independence standards for sustainability reporting and assurance.

Recent Developments

APESB Technical Staff have continued monitoring international and Australian sustainability developments as outlined below.

1. International Developments

The IFRS Foundation and ISSB

The ISSB met from 13 to 15 December 2022 in Montreal to redeliberate Draft IFRS S1 and S2 (summarised below with further details in the ISSB's [Update](#)).

In respect of Draft IFRS S1, the ISSB tentatively decided to:

- Clarify the standard's objective by describing how an entity:
 - creates value for investors/creditors is linked to value for other stakeholders, society and the environment;
 - uses, or relies on and effects, resources and relationships to create value and sustainability-related risks/opportunities; and
 - is affected by sustainability risks/opportunities.
- Further develop Illustrative Guidance by drawing on available market resources, including:
 - to clarify the distinction and connections between identifying, and material information about sustainability risks/opportunities;
 - a general description of and process for identifying risks/opportunities;
 - identifying material information regarding risks/opportunities; and
 - on complex business models.

In respect of Draft IFRS S2, the ISSB tentatively decided:

- In relation to greenhouse gas emissions to:
 - remove the requirement to disclose GHG emissions intensity;
 - not include an explicit requirement to disaggregate disclosures by constituent gases;
 - require the use of global warming potential values;

- include disclosures on specific inputs, assumptions and estimate techniques; and
 - require the use of the location-based method in disclosing Scope 2 emissions.
- On various amendments relating to Scope 3 emissions, including:
 - a temporary one-year exemption and allowing measurement of Scope 3 emissions using information from entities in the value chain with different reporting cycles;
 - a framework for measuring Scope 3 emissions;
 - to require disclosure of how Scope 3 emissions have been measured;
 - to provide specific disclosure relief about the value chain; and
 - to require information on certain Scope 3 emissions categories.
- To enhance Appendix B by moving the industry-based requirements to become part of illustrative guidance, addressing feedback on the international applicability of some topics/metrics, and resolving inconsistencies with SASB standards.
- Various amendments relating to financed and facilitated emissions.

At the December 2022 meeting, the ISSB also tentatively decided to undertake a ‘request for information’ from stakeholders on potential research projects on biodiversity, ecosystems and ecosystem services, human capital and human rights and a potential joint project with the IASB on connectivity in reporting.

The ISSB also met on 17 to 19 January 2023 in Frankfurt to redeliberate Draft IFRS S1 and S2 (summarised below with further details in the ISSB’s [Update](#)), including the proposed:

- objective for disclosing metrics and targets in the standards;
- a requirement in Draft IFRS S1 to disclose judgements, assumptions and estimates;
- the concept of *‘reasonable and supportable information that is available at the reporting date without undue cost or effort’* and whether and how to include it in the standards;
- a requirement in Draft IFRS S1 to disclose information about sustainability-related opportunities where information is commercially sensitive;
- requirements in the standards to disclose current and anticipated financial effects of sustainability-related risks and opportunities;
- requirements in Draft IFRS S1 on connected information;
- a requirement in Draft IFRS S2 to use scenario analysis to assess climate resilience;
- a requirement in Draft IFRS S2 to disclose greenhouse gas emissions (including a potential reporting relief); and
- a requirement in Draft IFRS S2 to disclose climate-related targets.

ISSB Next Steps

The ISSB will continue redeliberating Draft IFRS S1 and S2 and aim to make final decisions, including the effective date of the standards. However, the ISSB has recently announced that final IFRS S1 and S2 will not be issued until the latter part of Q2 2023. The next ISSB meeting will be on 13-17 February 2023.

IAASB

At the December 2022 Board meeting, the IAASB considered the initial drafting of certain parts of the proposed International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*, which includes requirements from existing standards ISAE 3000 (Revised) *Assurance Engagements Other than Audit or Review of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*. The proposed ISSA 5000 will be profession-agnostic, so it will apply to professional accountants and other experts that provide such assurance.

International Ethics Standards Board for Accountants (IESBA)

At the November-December 2022 meeting, the IESBA approved two new projects:¹

- (a) Sustainability project:
 - Profession-agnostic independence standards for use by all sustainability assurance practitioners; and
 - Specific ethics provisions relevant to sustainability reporting and assurance.
- (b) Experts project – specific ethics and independence provisions addressing the use of experts by organisations and in the context of audit and assurance engagements (including sustainability assurance).

APESB CEO Channa Wijesinghe has been appointed as a member of the IESBA's sustainability working group on independence standards for use by all sustainability practitioners.

The IESBA has also established a Sustainability Coordination Committee to oversee the coordination of the above projects and to engage with the International Organization of Securities Commissions (IOSCO), ISSB and IAASB² "with a view to achieving interoperable global standards for sustainability reporting and assurance".³

The IESBA will conduct a series of global roundtables to inform the development of exposure drafts relating to the above projects during March and April 2023, covering Europe, the Middle East and Africa, Asia, Oceania and the Americas. APESB will host the Oceania Roundtable in Sydney on 30 March 2023.

IESBA's current strategic focus on sustainability recognises the importance of ethics and independence in the production, reporting and assurance of sustainability information. Accordingly, it places the IESBA's ethics and independence standards as the third pillar to trustworthy reporting and assurance, together with the ISSB and IAASB standards that are being developed.⁴

¹ [November-December-2022-IESBA-Meeting-Highlights.pdf \(ifac.org\)](#)

² [IESBA-December-2022-Sustainability-Update.pdf \(ifac.org\)](#)

³ [November-December-2022-IESBA-Meeting-Highlights.pdf \(ifac.org\)](#)

⁴ [IESBA-December-2022-Sustainability-Update.pdf \(ifac.org\)](#)

Other International Sustainability Developments

Refer to Agenda Paper 7(a) for a summary of other International Sustainability Developments.

Australian Developments

Treasury

Treasury released a [Climate-related financial disclosure – Consultation paper](#) on 12 December 2022 seeking stakeholders' views on the design and implementation of the Government's commitment to standardised, internationally aligned disclosures of climate-related risks and opportunities. Submissions are due on 17 February 2023 and APESB will make a submission to this consultation.

ASIC greenwashing infringement notices

ASIC issued infringement notices to:

- Investment manager Vanguard Investments Australia Ltd (Vanguard) for alleged greenwashing by overstating an exclusion (known as an investment screen) of investment in companies selling tobacco. Vanguard paid \$39,960 ([ASIC media release](#)).
- Superannuation trustee Diversa Trustees Limited (Diversa) for alleged overstated exclusions (investment screens) about its superannuation product Cruelty Free Super's (CFS) investments in 'polluting and carbon-intensive activities', 'financing or support of activities which cause environmental and social harm' and 'poor corporate governance'. Diversa paid \$13,320 ([ASIC media release](#)).
- Black Mountain Energy Limited (BME) related to allegedly false and misleading statements in three ASX announcements claiming that BME was creating a natural gas development project with 'net-zero carbon emissions' and that Project Valhalla would be net zero. BME paid \$39,960 ([ASIC media release](#)).

Chartered Accountants Australia and New Zealand (CA ANZ)

In December 2022, CA ANZ issued [Purpose, people and planet: sustainability playbook for NFPs](#), which includes actionable insights, tailored tips and resources for NFPs to incorporate into delivering their purpose. Additionally, Chartered Accountants Worldwide's [Sustainability Hub](#) includes a Sustainability Roadmap to signpost for CAs to understand sustainability and its impact on their work.

AUASB and AASB

In October 2022, the Auditing and Assurance Standards Board (AUASB) issued a [Sustainability Assurance Update](#) on standards and other resources available for sustainability assurance and recent developments.

The Australian Accounting Standards Board (AASB) and AUASB continued to hold [Sustainability Reporting Project Advisory Panel](#) meetings. APESB CEO, Channa Wijesinghe, attended these meetings as an observer.

Way Forward

Technical Staff will continue to update the Board on key Australian and international developments 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 professional & ethical standards.

Recommendation

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

Material Presented

Agenda Item 7(a) Summary of other International Sustainability Developments

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