

AGENDA PAPER

Item Number: 8
Date of Meeting: 31 May 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. Standard-setters globally and across various jurisdictions are working to develop sustainability reporting and assurance standards to address concerns about the current lack of standardisation and complexity of multiple frameworks.

An update on sustainability was provided at the November 2021 Board meeting, including the launch of the International Sustainability Standards Board (ISSB) by the International Financial Reporting Standards (IFRS) Foundation ([Agenda Item 5](#)).

A further update was provided at the June 2022 meeting on the ISSB's first two proposed standards [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) issued in March 2022 and the International Ethics Standards Board for Accountants (IESBA) Sustainability Working Group established in March 2022, chaired by IESBA Board Member, Mark Babington (UK FRC) ([Agenda Item 6](#)).

The September 2022 meeting update noted the ISSB received over 1,300 submissions on Draft IFRS S1 and S2 from accounting bodies, audit firms, investors, preparers, public interest bodies, regulators and standard setters ([Agenda Item 12](#)).

The December 2022 meeting update covered the ISSB's deliberations on submissions on Draft IFRS S1 and S2, the International Auditing and Assurance Standards Board's (IAASB) project to develop a profession-agnostic sustainability assurance standard (proposed ISSA 5000), the IESBA's deliberations on independence for sustainability assurance, and the

APESB and the New Zealand External Reporting Board (XRB) joint letter to the IESBA on its proposed approach ([Agenda Item 6](#)).

The February 2023 meeting update included the ISSB's continued consideration of submissions on Draft IFRS S1 and S2, the IAASB's progress on proposed ISSA 5000, the IESBA's new Sustainability and Experts projects, and the Treasury's consultation on climate-related financial disclosures ([Agenda Item 7](#)).

Recent Developments

Technical Staff have continued to monitor developments in sustainability and ESG reporting, particularly from ISSB, IESBA, IAASB, AUASB and AASB, as outlined below.

International Developments

International Sustainability Standards Board (ISSB)

[16 February Meeting](#)

The ISSB redeliberated Draft IFRS S1 and S2 and tentatively decided that Draft IFRS S1 will permit preparers to consider the following:

- The most recent pronouncements of other standard-setting bodies designed to meet the needs of users of general purpose financial reporting for disclosing sustainability-related risks and opportunities; and
- Global Reporting Initiative Standards and the European Sustainability Reporting Standards for disclosures about sustainability-related risks and opportunities.

The ISSB also tentatively decided:

- that IFRS S1 and S2 will become effective for periods beginning on or after 1 January 2024, with earlier adoption permitted;
- timeframes to report sustainability-related financial disclosures when applying for short-term relief; and
- relief in the first annual reporting period from; reporting sustainability-related financial information concurrently with related financial statements; measuring Scope 1, 2 and 3 greenhouse gas emissions (GHG) in accordance with the Greenhouse Gas Protocol where a different basis was previously used; and disclosing Scope 3 GHG emissions.

The ISSB have determined that their public consultation process is concluded and that IFRS S1 and S2 will not be re-exposed.

[16 March Meeting](#)

The ISSB discussed the process to maintain, enhance and improve the SASB Standards and the International Applicability of the SASB Standards project and potential projects to include in the ISSB's first request for information, focusing on the integration of reporting to inform the ISSB's two-year work plan.

[4 April Meeting](#)

The ISSB tentatively decided to include transitional relief in IFRS 1 only to require reporting on climate-related risks and opportunities in the first year IFRS S1 and S2 are applied (with information on other sustainability-related risks and opportunities required in the second year). The ISSB also tentatively decided where such relief is used, entities must disclose that fact and can use the previously agreed transitional relief in IFRS S1, so comparative information on other sustainability-related financial information is not required in the first year.

[19 April Meeting](#)

The ISSB discussed and ratified the Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*, which is expected to be published in May 2023 and open for 90 days for public comments. The ISSB also discussed its request for information on the ISSB's agenda priorities. The [consultation paper](#) was published on 4 May 2023 and is open until 1 September for comments.

[ISSB Next Steps](#)

The ISSB expects to issue IFRS S1 and S2 towards the end of the second quarter of 2023. The next ISSB meeting will be on 15-19 May 2023.

International Auditing and Assurance Standards Board (IAASB)

At the [March](#) and [April](#) 2023 meetings, the IAASB considered further amendments to the proposed International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*. The IAASB anticipates issuing an Exposure Draft by June 2023, to be open for public comment until November 2023, with the final standard to be issued in the second half of 2024. The proposed ISSA 5000 is expected to be profession-agnostic and apply to professional accountants and other experts providing sustainability assurance.

International Ethics Standards Board for Accountants (IESBA)

[March 2023 Meeting](#)

At the [March 2023 Board meeting](#), the IESBA received updates from:

- David Madon, IFAC Director of Sustainability, Policy & Regulatory Affairs, on IFAC's latest research on the landscape for sustainability reporting and assurance; and
- Willie Botha, IAASB Program and Technical Director, on the IAASB's sustainability project.

The Board supported establishing a stakeholder reference group of primarily non-accountants to inform the development of profession-agnostic sustainability ethics and independence standards for assurance. In addition, the Board provided feedback on the Sustainability Task Force's preliminary views on key terms, definitions and scoping. Finally, the Board considered potential approaches to present profession-agnostic standards for sustainability assurance and whether IESBA should also develop profession-agnostic ethics standards for sustainability reporting. As there was a request from the Global regulatory community to develop professionally agnostic independence standards for assurance practitioners, but

stakeholders had not requested the same for sustainability reporting, it was determined that the initial focus of the IESBA should be on the development professionally agnostic ethical and independence standards for sustainability assurance practitioners.

The IESBA will consider feedback from the global roundtables and preliminary drafts of the proposed ethics and independence provisions for sustainability reporting and assurance at its 12-16 June 2023 meeting. IESBA anticipates issuing an Exposure Draft for Sustainability assurance by Q4 2023.

IESBA Global Sustainability Roundtables

In late March and early April 2023, the IESBA held four global roundtables in Paris, Sydney, Singapore and New York to obtain stakeholder input to inform the development of new ethics and independence standards for the Sustainability and Experts projects. The Sydney roundtable on 30 March was hosted by APESB and held at CA ANZ's offices. Refer to Agenda Item 8(a) for the IESBA's introductory presentation.

Sustainability Task Force

In early May 2023, IESBA's Sustainability Task Force met in Lisbon, Portugal, to advance work on developing global ethics (including independence) standards for sustainability reporting and assurance. The two Workstreams made considerable progress on several strategic issues and will update the Board on their progress at the June 2023 Board meeting.

International Accounting Standards Board (IASB)

In March 2023, the IASB initiated a [project](#) to explore how companies can provide better information about climate-related risks in their financial statements in response to feedback received from the [IASB's recent Agenda Consultation](#). The IASB will consider the ISSB's work to ensure any proposals complement the IFRS Sustainability Disclosure Standards.

International Organisation of Securities Commissions (IOSCO)

On 28 March 2023, IOSCO published a [report](#) that set out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting and continued support of the timely development of profession-agnostic ethics and assurance standards for sustainability reporting by the IESBA and IAASB.

IOSCO [encourages](#) system-wide engagement throughout the development of the standards and for all stakeholders to consider matters such as enhancing the connectivity between sustainability and financial information and that the assurance framework promotes transparency. IOSCO also encourages capacity building and appropriate knowledge of sustainability-related reporting to support reporting and assurance.

International Federation of Accountants (IFAC)

Equipping the Public Sector for Sustainability Action (IPSASB)

In April 2023, IFAC, IPSASB, and Accountancy Europe hosted a [discussion](#) on the future of sustainability reporting in the public sector, the urgent need for public sector-specific sustainability reporting standards, and how the IPSASB is exploring undertaking this.

Report from IFAC, AICPA & CIMA

In February 2023, IFAC, AICPA and CIMA released [The State of Play: Sustainability Disclosure & Assurance](#), identifying sustainability trends over 2019-2021. This is the third year analysing the extent of reporting and assurance over sustainability disclosures, the assurance standards being used, and entities providing assurance. While reporting ESG information remains very high, and assurance is increasing, there is a gap between the two, including:

- 95% of those reviewed report some level of sustainability information.
- 64% of those reporting sustainability information include some level of assurance.
- 57% of those assurance engagements were done by an audit firm.

Australian Developments

APESB and CPA Australia panel event on global sustainability developments

On 30 March 2023, APESB and CPA Australia held a joint interactive panel event in Sydney on global developments in ethics and assurance for sustainability, moderated by APESB CEO and IESBA Member Channa Wijesinghe and with the following distinguished panellists:

- Mark Babington – Executive Director of Regulatory Standards at the Financial Reporting Council UK and IESBA Member;
- Bill Edge – Chair of the Australian Auditing and Assurance Standards Board (AUASB) and IAASB Member;
- Doug Niven – Chief Accountant, Australian Securities and Investments Commission (ASIC)
- Marje Russ – Chair of the New Zealand Auditing and Assurance Standards Board (NZAuASB)

The feedback that CPA Australia has received from this panel session has been very positive and the recording is available here

<https://cpaaustralia.webex.com/cpaaustralia/ldr.php?RCID=03fc5eb0e6e6fbe66a7590430c32290c> and the password is CPAAustralia2023.

Treasury

Treasury received 194 submissions on its [Climate-related financial disclosure – Consultation](#) on the design and implementation of the Government’s commitment to standardised, internationally aligned disclosures of climate-related risks and opportunities, including APESB’s [submission](#) on 17 February 2023. However, Treasury is yet to respond to feedback received.

Australian Securities and Investments Commission (ASIC)

Greenwashing infringement notice

ASIC issued an infringement notice for \$13,320 to Future Super Investments Services Pty Ltd for alleged greenwashing in a Facebook post that may have been false or misleading by overstating the positive environmental impact of the fund (ASIC [media release](#)).

Court proceedings alleging greenwashing

ASIC launched its first court action relating to greenwashing against Mercer Superannuation (Australia) Limited (Mercer) for allegedly making misleading statements about the sustainable nature and characteristics of some of its superannuation investment options. ASIC is seeking declarations, financial penalties, and injunctions preventing Mercer from continuing to make such statements and orders requiring Mercer to publicise any contraventions found by the court (ASIC [media release](#)).

ASIC Report on greenwashing actions

On 10 May 2023, ASIC released a short [report](#) on its 35 interventions in response to surveillance activities between 1 July 2022 and 31 March 2023. The interventions aim to promote fair and transparent markets so investors and consumers are informed and not misled. These interventions have resulted in 23 corrective disclosure outcomes, 11 infringement notices and the commencement of civil penalty proceedings.

Auditing and Assurance Standards Board (AUASB)

In [February](#) and [April](#) 2023, the AUASB issued its second and third sustainability assurance updates on key advancements and timing of sustainability assurance developments, the interplay of the various International Standard Setters and ISSA 5000. The AUASB will conduct extensive outreach during the exposure period on ISSA 5000 in the second half of 2023 to ensure Australian feedback is captured and shared with the IAASB.

Australian Accounting Standards Board (AASB) and AUASB

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.

Materials Presented

Agenda Item 8 (a) IESBA Roundtable Introductory Session - Sydney

Recommendation

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

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