

21 July 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via Email: climatereportingconsultation@treasury.gov.au

Dear Sir/Madam,

Climate-related financial disclosure – Consultation Paper June 2023

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the Treasury's *Climate-related financial disclosure – Consultation Paper June 2023* (the Consultation Paper).

APESB made a submission to Treasury's *Climate-related financial disclosure – Consultation Paper December 2022*, which provided an overview of APESB's role in Australia's Financial Reporting Framework and the Sustainability Reporting and Assurance architecture, as well as the International Ethics Standards Board for Accountants' (the IESBA's) role in International Sustainability Reporting and Assurance framework. APESB has not reproduced that content in this submission.

Consideration of the Position Proposed in the Consultation Paper

APESB is supportive of the proposed positions in the Consultation Paper relating to coverage, content, framework and enforcement of the requirements. APESB generally supports Australia's alignment with international financial reporting, sustainability reporting, assurance, and ethical standards. APESB was also pleased to note the position that "...providers of assurance for climate-related disclosures would be required to be independent from the entity being audited."¹

However, APESB is concerned that the framework for professional and ethical standards has **not been** explicitly mentioned or considered in the Consultation Paper, apart from the comments concerning assurance providers and the legally enforceable independence requirements in the *Corporations Act 2001* (which are limited, compared to the independence

¹ The Australian Government (2023), [Climate-related financial disclosure: Consultation Paper](#), The Treasury, accessed 7 July 2023.

requirements in *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code)). This is primarily why the legally enforceable auditing standards (for financial statement audits) and the SIS Regulations (applicable for SMSF audits) refer to the Code.

APESB wishes to reiterate the comments in our original submission about the integral role of professional and ethical standards in developing trustworthy climate-related disclosures, not just by assurance providers but also by those involved in preparing and presenting sustainability disclosures.

APESB recommends that the Treasury consider the comprehensive requirements in the Code, which could be applied to all those preparing and presenting climate-related information and the related assurance reports.

APESB is of the view that the lack of a strong ethical framework alongside a robust accountability regime will see sustainability-related ethical failures, such as greenwashing, becoming more prevalent.

Regulators and standard-setters are concerned about the rise of greenwashing. In November 2022, the International Organization of Securities Commissions (IOSCO) issued a [call for action](#) to promote practices that would counter the risk of greenwashing related to asset managers and data providers in financial markets. In Australia, the Australian Securities and Investments Commission (ASIC) have released guidance ([Info Sheet 271](#)) on how to avoid greenwashing. Over the course of the period 1 July 2022 to 31 March 2023, ASIC have undertaken 35 interventions against entities for greenwashing concerns (as set out in [Report 763 ASIC's recent greenwashing interventions](#) released in May 2023).

Recent ethical failures have underscored the importance of having regard to an appropriate ethical framework by professionals who provide professional services. As such, APESB recommends that the Treasury consider enacting appropriate mechanisms to ensure professional and ethical requirements are followed in reporting and the assurance on climate-related financial disclosures.

International Developments of sustainability-related professional and ethical standards

The IESBA is currently in the process of developing fit-for-purpose, globally applicable ethics and independence standards. The standards will be professionally-agnostic and can be applied to the provision of assurance services on Sustainability-related information, regardless of whether the assurance practitioner is a professional accountant.

In addition, the IESBA is also considering revisions to the International Code to address the specific ethics and independence issues that might arise when experts work with professional accountants on a range of services, such as tax planning, technology-related services and sustainability reporting and assurance.

APESB's CEO, Channa Wijesinghe is a Member of IESBA's Sustainability Taskforce and working on developing the global independence requirements for Sustainability Assurance Practitioners.

The IESBA is expected to issue exposure drafts by the end of 2023 and finalise these new standards on Sustainability and the use of experts by the end of 2024. APESB intends to adopt these revisions into the Code after the completion of APESB's usual due process in Australia.

Recommendation and Conclusion

In a similar manner to how the SMSF legislation(section 128F(d)) and Regulations(9A.06) effectively incorporate APES 110 *Code of Ethics for Professional Accountants (Including Independence Standards)* as being the applicable independence requirements for SMSF auditors, APESB strongly recommends that Treasury adopt a similar approach for sustainability assurance practitioners in Australia. This approach will ensure that assurance practitioners are subject to globally consistent comprehensive independence requirements.

We trust you find these comments useful in your deliberations. If you wish to discuss this further or require additional information, please contact APESB's Chief Executive Officer, Channa Wijesinghe, at channa.wijesinghe@apesb.org.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nancy Milne', written in a cursive style.

Nancy Milne OAM
Chairman