

AGENDA PAPER

Item Number: 6
Date of Meeting: 3 June 2022
Subject: Developments in Sustainability

Action required For discussion For noting For information

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 voluntary 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.

On 3 November 2021, at the COP 26 UN Climate Change Conference in Glasgow, the IFRS Foundation announced the launch of the ISSB to develop comprehensive global baseline sustainability disclosure standards in the public interest. Since the establishment, there has been a focus on establishing the body's leadership. The ISSB is independent of the IASB and the IFRS Foundation Trustees will oversee both Boards.

On 16 December 2021, the IFRS Foundation announced the appointment of Emmanuel Faber as the first Chair of the International Sustainability Standards Board (ISSB). Mr Emmanuel Faber is the former Chief Executive Officer and Board Chairman of Danone.

The climate disclosure standards board (CDSB) was consolidated into the IFRS foundation on 31 January 2022 and is in the process of consolidating the Value Reporting Foundation (VRF) into the IFRS Foundation by June 2022 to provide staff and resources to the new International Sustainability standards Board (ISSB).

The publication of prototype disclosure requirements will be 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.

Recent Standards Developments

APESB Technical Staff have continued to monitor the international development in sustainability and ESG reporting, particularly from ISSB, IESBA, AUASB and AASB. Standards development and other recent development are outlined below.

The International Financial Reporting Standards Foundation

ISSB delivers proposals that create a comprehensive global baseline of sustainability disclosures

On 31 March 2022, The International Sustainability Standards Board (ISSB) launched a consultation on its first two proposed standards. One sets out general sustainability-related disclosure requirements and the other specifies climate-related disclosure requirements.

- [Exposure Draft Proposed IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#)
- [Exposure Draft Proposed IFRS S2 Climate-related Disclosures](#)

The two new proposed standards from the ISSB are built upon TCFD recommendations and SASB Standards, in addition to the work of the Climate Disclosure Standards Board, the International Accounting Standards Board, the Value Reporting Foundation, and the World Economic Forum.

The ISSB is seeking feedback on the proposals over a 120-consultation period closing on 29 July 2022. It will review the feedback on the proposal in the second half of 2022 and aim to issue new Standards by the end of the year.

Click [here](#) to provide feedback. Further details can be found in the IFRS Foundation's [media release](#).

Webinars on the ISSB's exposure drafts

The International Sustainability Standards Board (ISSB) held two live webinars on 28 April 2022 for all stakeholders on the two proposed standards. Recordings of both webinars are available [here](#) and the PowerPoints are [available here](#).

ISSB establishes a working group to enhance compatibility between global baseline and jurisdictional initiatives

The International Sustainability Standards Board (ISSB) announced in late April 2022 the formation of a working group of jurisdictional representatives to ensure compatibility and encourage feedback on ISSB's exposure drafts that are currently open for comment.

Members of the workgroup are the Chinese Ministry of Finance, The European Commission, the European Financial Reporting Advisory Group, the Japanese Financial Services Authority, the Sustainability Standards Board of Japan Preparation Committee, the United Kingdom Financial Conduct Authority and the US Securities and Exchange Commission. Further details can be found in the AICPA [media release](#).

U.S Securities and Exchange Commission

SEC Proposes Rules to Enhance and Standardise Climate-Related Disclosures for Investors

The Securities and Exchange Commission announced the proposed rule change [U.S. SEC's proposal on enhanced climate disclosures](#) in March 2022 to include disclosure on climate-related risk and relevant risk management process in their registration statements and periodic statements. This is to support a global system for delivering consistent, comparable and assurable sustainability information to the investors and other stakeholders.

The [public comment period](#) has been extended to 17 June 2022. Further details can be found in the SEC [media release](#).

European Commission

Directive on Corporate Sustainability Due Diligence

The European Commission adopted a [proposal for Corporate Sustainability Reporting](#) (CSRD) in April 2021, which amends the existing reporting requirement of the Non-Financial Reporting Directive (NFRD) to introduce more detailed non-financial reporting requirements that are mandatory to EU sustainability reporting standards.

On 23 February 2022, the European Commission published the proposal for a [Directive on Corporate Sustainability Due Diligence](#) (CSDD). The CSDD is closely interlinked with CSRD, as CSRD requires setting up processes to identify adverse impacts in accordance with the due diligence duty introduced by CSDD.

The proposal for a CSDD is intended to apply to:

- Group 1: EU companies with more than 500 employees and EURO 150 million in net turnover; and
- Group 2: other companies in high-risk sectors which do not meet the group 1 threshold with more than 250 employees and a net turnover of EURO 40 million.
- Non-EU Companies active in the EU with turnover threshold aligned with Group 1 and 2, generated in the EU

Small and medium enterprises are not directly in the scope of this proposal.

The new requirements for the CSDD in-scope companies are:

- *Identify, stop, prevent, mitigate, or account for the impact of their operations and value chains impact on human rights and the environment – as defined in international human rights and environment treaties.*
- *Have a plan to ensure that their business strategy is compatible with limiting global warming to 1.5 °C in line with the Paris Agreement.*

- *Companies' directors must integrate these rules when exercising their duty of care to the company – and the Member States must update duty of care laws to reflect this.*
- *Directors' bonuses must "take into account" the progress made on the company's climate change compatibility plans.*

The proposed new rules are not yet in force and are subject to EU co-legislators review and approval. Further details can be found in the EU Commission [press release](#) and AICPA [media release](#).

International Ethics Standards Board for Accountants (IESBA)

IESBA discussion on sustainability and ethics

At its March 2022 Board meeting, IESBA approved the creation of a taskforce on sustainability. The taskforce will be Chaired by IESBA Board Member Mark Babington (UK FRC). The taskforce will report back at IESBA's June 2022 Board meeting.

The taskforce will evaluate the Code's appropriateness for those who prepare and provide assurance over sustainability information. In recognition of those not from the accounting profession involved in the sustainability space, there will also be a consideration of whether it will be possible for non-accountants to use the IESBA Code. The taskforce will also explore the potential to develop non-authoritative material to provide guidance to stakeholders.

The IESBA held a webinar on the 18th of May 2022 on the critical role of complying with ethics standards, including independence, in ensuring reliable and trustworthy sustainability information. The one-hour, live-streamed conversation between IESBA Chair, Gabriela Figueiredo Dias; IESBA Sustainability Working Group Chair and UK Financial Reporting Council Executive Director, Mark Babington, and Financial Conduct Authority Director of ESG, Sacha Sadan.

This webinar addresses current challenges in the preparation and presentation of sustainability information, the ethical implications and the challenges associated with overcoming the issue of misrepresentation of sustainability reporting. Click [here](#) to watch the recording.

Australian sustainability and climate-related developments

Australian Accounting Standards Board (AASB)

AASB ED 321 Request for Comment on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

On 14 April 2022, the AASB released for consultation the International Sustainability Standards Board's (ISSB) Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 ([ED 321](#)) to gather feedback for its proposed approach to sustainability-related financial reporting in Australia. Comments are required by 15 July 2022 via the AASB [website](#) or [email](#).

The AASB will host in-person roundtables in Melbourne on 30 and 31 May 2022 to receive stakeholder feedback on the International Sustainability Standards Board (ISSB) 's Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 (ED 321).

AASB will also host virtual industry-focussed roundtables on 1 and 2 June 2022 to receive stakeholder feedback on the International Sustainability Standards Board (ISSB) 's Exposure [Draft] on IFRS S1 and [Draft] IFRS S2 (ED 321).

The virtual industry-focussed roundtables are intended to gather feedback on the proposed industry definitions and metrics in [Draft] IFRS S2 Climate-related Disclosures.

Australian Sustainability Working Groups

Since last year, the AASB has a Sustainability Reporting Project Advisory Panel, which generally meets monthly to monitor international developments and provide input to the Technical Staff of the AASB.

In addition, from April 2022, the standard setters and the professional bodies will meet monthly to monitor and discuss standard-setting and profession-wide issues relating to sustainability.

The CEO represents APESB in both of these working groups.

Way Forward

Technical Staff propose to maintain a watching brief and monitor:

- International developments in sustainability and ESG reporting; and
- Participate and influence local developments in sustainability reporting and assurance to inform future changes to the Code.

Recommendations

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

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