

## AGENDA PAPER

**Item Number:** 7  
**Date of Meeting:** 24 August 2023  
**Subject:** Update on Sustainability

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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 International and Australian sustainability-related developments.

### Background

To address demands from investors, those charged with governance, the public and other stakeholders for consistent sustainability and ESG reporting and assurance, standard-setters globally and across various jurisdictions are working to develop sustainability reporting, assurance, and ethics and independence standards.

To date, the Board have received the following updates on sustainability-related matters:

- November 2021 ([Agenda Item 5](#)) - the launch of the International Sustainability Standards Board (ISSB) by the International Financial Reporting Standards (IFRS) Foundation.
- June 2022 ([Agenda Item 6](#)) - the release of the exposure drafts for 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) and the establishment of the International Ethics Standards Board for Accountants (IESBA) Sustainability Working Group.
- September 2022 ([Agenda Item 12](#)) - 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.
- December 2022 ([Agenda Item 6](#)) - 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.

- February 2023 ([Agenda Item 7](#)) - the ISSB's continued consideration of the submissions on Draft IFRS S1 and S2; the IAASB's progress on the exposure draft for proposed ISSA 5000; the IESBA's new Sustainability and Experts projects; and the Treasury's consultation on climate-related financial disclosures.
- May 2023 ([Agenda Item 8](#)) - the conclusion of the ISSB's consultation on IFRS S1 and IFRS S2; the IAASB progress on their exposure draft; the IESBA's deliberations on feedback received from the global roundtables as well as preliminary drafts of the proposed ethics and independence provisions.

## Recent Developments

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

## International Developments

### ***International Sustainability Standards Board (ISSB)***

#### ISSB Meetings

The ISSB have held the following meetings since the last update was provided to the Board:

- [18 May 2023 Meeting](#) - The ISSB discussed and ratified consequential amendments to the climate-related SASB Standards to align them with IFRS S2 *Climate-related Disclosures*.
- [27 July 2023 Meeting](#) - The ISSB discussed the path forward for researching targeted enhancements to the ISSB Standards. The Board also directed staff to develop educational material to explain and illustrate how an entity might apply IFRS S2 Climate-related Disclosures to disclose information about some natural and social aspects of climate-related risks and opportunities.

The next ISSB meeting will be held in Montreal, Canada, on 11-15 September 2023. The ISSB will discuss the development of educational material related to IFRS S2 at this meeting.

#### ISSB issues inaugural global sustainability disclosure standards

On 26 June 2023, the ISSB issued its [inaugural standards](#) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. The standards will enhance trust and confidence in company disclosures about sustainability to inform investment decisions. The standards are effective from 1 January 2024, but it will be up to individual jurisdictions to decide whether and when to adopt them. Further information can be found in the ISSB's [media release](#).

Following the issue of the two new standards, the ISSB released the following supporting materials:

- ["Ten things you need to know about the first ISSB Standards"](#) on 27 June 2023, which summarises the focus of the standards, why and how they were developed, and the benefits of having a global baseline standard.
- Recordings of [two-high level webcasts](#) on IFRS S1 and IFRS S2. The IFRS S1 webcast highlights how IFRS S1 and IFRS S2 interact, how companies should approach

reporting and the overarching disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. The IFRS S2 webcast provides an overview of the disclosure requirements for companies to disclose cross-industry and industry-specific information on climate-related risks and opportunities.

#### *Transfer of TCFD monitoring responsibilities to ISSB from 2024*

On 10 July 2023, the ISSB announced that from 2024, the responsibilities of monitoring the progress of companies' climate-related disclosures against the recommendations from the Taskforce on Climate-related Financial Disclosure (TCFD) will be transferred to the ISSB. Further information can be found in the ISSB's [media release](#).

#### **World Economic Forum**

##### *World Economic Forum and ISSB Partner to Compile Learnings on Early Sustainability Reporting Efforts*

On 6 June 2023, the World Economic Forum announced the establishment of a Forum ISSB Preparers Group to provide insights and perspectives to the ISSB on the feasibility and practicability of applying the Standards. The partnership was formalised by an MoU signed on 2 June 2023. The MoU also builds upon the World Economic Forum's prior collaboration with the IFRS Foundation, which contributed to developing two prototype disclosure standards launched at COP26. Read the [media release](#) for further information.

#### **International Auditing and Assurance Standards Board (IAASB)**

On 2 August 2023, the IAASB issued its exposure draft on the proposed [International Standard on Sustainability Assurance \(ISSA\) 5000, General Requirements for Sustainability Assurance Engagements](#) for public consultation. To complement this release, the Board have also issued [Frequently Asked Questions](#) on the proposed ISSA 5000.

The proposed ISSA 5000 will serve as a comprehensive, stand-alone standard suitable for any sustainability assurance engagement (i.e., sustainability information reported across any sustainability topic and prepared under multiple frameworks). The IAASB developed ISSA 5000 in close consultation and coordination with IOSCO, FSB, IESBA, ISSB and GRI. Both accountants and non-accountant assurance practitioners can use it to perform high-quality sustainability assurance engagements.

One of the key conditions on the use of the proposed ISSA 5000 by non-accountant assurance practitioners is that the practitioner needs to comply with relevant ethical requirements and apply a system of quality management that are at least as demanding as the International Code of Ethics and the IAASB's suite of quality management standards.

APESB technical staff note that the use of the phrase – "at least as demanding" –in ISSA 5000 may pose challenges for non-accountants providing assurance services, and could have the effect of limiting the use of ISSA 5000 by those practitioners.

Comments on the IAASB's exposure draft are due by **1 December 2023**. Further information on the consultation can be found in the IAASB's [media release](#).

## ***International Ethics Standards Board for Accountants (IESBA)***

### *June 2023 Meeting*

At this meeting, the IESBA received a presentation from Mr Daniel Metzger, Associate Director, Head of Mid-East & Asia of AccountAbility, on AccountAbility's role in sustainability, its stakeholders and how the global standards interact with the sustainability-related ethics and independence standards that IESBA is developing.

The Board considered the feedback from the global sustainability roundtables held in late March/early April 2023 and provided an update on the formation of its Sustainability Reference Group (refer below).

The Board supported the inclusion of the profession-agnostic ethics and independence standards for sustainability assurance in a new part of the Code, "Part 5". The Board discussed several other issues, including the scope of ethics and independence standards for sustainability assurance, independence standards for group sustainability assurance engagements, the definition of Public Interest Entities (PIEs) for sustainability assurance engagements, partner rotation requirements, fee-related provisions concerning independence and provisions addressing how to respond to non-compliance with laws and regulations (NOCLAR).

In relation to sustainability reporting, the Board agreed to limit the scope of the ethics provisions to professional accountants for now and explore the development of profession-agnostic ethics standards for sustainability reporting as part of another initiative in the future.

The IESBA will consider the first draft of the proposed ethics and independence provisions for sustainability reporting and assurance at its September 2023 meeting.

### *IESBA Establishes a Sustainability Reference Group*

On 30 June 2023, the IESBA announced the establishment of the Sustainability Reference Group (SRG) to support the work of its Sustainability Task Force. The SRG will offer insights, expertise and advice to support the development of global ethics and independence standards for sustainability reporting and assurance.

Mr Channa Wijesinghe, IESBA Member, Sustainability Taskforce Member and APESB CEO, will chair the SRG. Other SRG members have been chosen due to their diverse backgrounds, experience and expertise in sustainability reporting or assurance. Further information on other members of the SRG can be found in IESBA's [media release](#).

## ***International Organisation of Securities Commissions (IOSCO)***

### *IOSCO endorses the ISSB's Sustainability-related Financial Disclosures Standards*

On 25 July 2023, IOSCO announced that they endorse the sustainability-related financial disclosure standards recently issued by the ISSB, IFRS S1 and IFRS S2. IOSCO urges its 130 member jurisdictions, which regulate more than 95% of the world's financial markets, to

adopt and apply ISSB Standards to promote consistent and comparable climate-related and other sustainability-related disclosure for its investors. Further information can be found in IOSCO's [media release](#).

## ***International Federation of Accountants (IFAC)***

### ***IFAC Responds to European Sustainability Reporting Standards***

On 7 July 2023, IFAC submitted [feedback](#) in response to the first set of European sustainability reporting standards (ESRS). The standard requires large and listed companies to publish regular reports on the social and environmental risks they face and how their activities impact people and the environment.

IFAC welcomes the standards but notes significant concerns regarding the need for interoperability that supports a global system for reporting. With the issuance of new standards by the ISSB and the [U.S SEC's proposed climate disclosure rule](#), IFAC emphasizes the importance of aligning the key concepts, terminology and metrics to avoid regulatory fragmentation, particularly on matters related to materiality.

IFAC encourages the European Commission to participate in ongoing stakeholder engagement with IAASB. Further information can be found in IFAC's [media release](#).

## **Australian Developments**

### ***Treasury***

#### ***Climate-related financial disclosure: Second consultation***

On 27 June 2023, the Treasury issued a consultation paper on [Climate-related financial disclosure](#) built upon the previous consultation paper released in December 2022. The government sought stakeholders' views on proposed positions for implementing and sequencing standardised, internationally-aligned requirements for disclosing climate-related financial risks and opportunities in Australia. The comment period for this consultation paper closed on 21 July 2023.

APESB made a submission to Treasury on this consultation paper (refer to the APESB section below). Further information on the Treasury Consultation Paper can be found [here](#).

### ***Australian Securities and Investments Commission (ASIC)***

#### ***ASIC greenwashing antidote***

ASIC has taken 35 regulatory interventions against greenwashing in the nine months leading up to March 2023. Sustainable finance is ASIC's regulatory priority, and ASIC urges superannuation and investment funds to review their practices against the nine questions set out in the [information sheet: How to avoid greenwashing when offering or promoting sustainability-related products](#), which was released in June 2022. Further information can be found on ASIC's [media release](#).

### *ASIC commences greenwashing case against Vanguard Investments Australia*

On 25 July 2023, ASIC lodged civil penalty proceedings in the Federal Court against Vanguard Investments Australia, alleging misleading conduct relating to claims about exclusionary screens applied to investments in a Vanguard Fund. The allegations involve false and misleading statements by Vanguard to the public that all Vanguard Ethically Conscious Global Aggregate Bond Index Fund securities were screened against certain ESG criteria between 7 August 2018 and 17 February 2021.

ASIC has issued infringement notices amounting to over \$140,000 in response to concerns about alleged greenwashing, with three of these notices amounting to \$39,960 against Vanguard for separate greenwashing conduct. ASIC seeks declaration and pecuniary penalties and orders for Vanguard to publicise any violations identified by the court. Further information can be found on ASIC's [media release](#).

### ***Australian Accounting Standards Board (AASB)***

#### [June 2023 meeting](#)

The AASB agreed to broaden the Climate-related Financial Disclosure project's scope to explore further the development of sector-neutral Australian climate-related financial disclosure requirements, which was initially limited to the for-profit sector.

### ***Auditing and Assurance Standards Board (AUASB)***

#### [June 2023 meeting](#)

The AUASB discussed and supported the Proposed ISSA 5000 *General Requirements for Sustainability Assurance Engagements*. No significant issues were identified by the AUASB members concerning the proposed standards. The AUASB agreed to consider the Australian Consultation paper to expose the IAASB Proposed ISSA 5000 in early-mid August 2023, with a release date of mid-August.

### ***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, has attended these meetings as an observer.

### ***APESB***

#### *Submission to Treasury on its Climate-related financial disclosure-consultation paper*

On 21 July 2023, APESB made a submission to the Treasury on its Climate-related financial disclosure – Consultation Paper (the Consultation Paper).

APESB supported the proposed position outlined in the Consultation Paper regarding coverage content, framework and enforcement of requirements. APESB also supports Australia's alignment with international financial reporting, sustainability reporting assurance and ethical standards.

However, APESB raised concerns that the framework for professional and ethical standards has not been explicitly mentioned or considered in the Consultation Paper.

APESB highlighted the sustainability-related ethical failures to emphasize the importance of professional and ethical standards in developing reliable climate-related disclosures for assurance providers and those preparing and presenting sustainability information.

APESB recommends that the Treasury considers the comprehensive requirements in the Code, which applies to all those preparing and presenting climate-related information and the related assurance reports. Refer to Agenda Item 7(a) for APESB's Submission.

### **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-related developments.

### **Materials Presented**

Agenda Item 7(a)      Submission to Treasury Consultation Paper on Climate-related financial disclosure.

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