

AGENDA PAPER

Item Number: 7
Date of Meeting: 17 November 2023
Subject: Update on Sustainability

Action required For discussion For noting For information

Purpose

To provide the Board with an update on recent International and Australian sustainability-related developments.

Background

APESB is currently monitoring international and Australian sustainability-related developments to inform its upcoming project on sustainability, which will be based on the outcomes of the International Ethical Standards Board for Accountants' (IESBA's) current project on sustainability.

Key developments in relation to sustainability previously advised to the Board include:

- the International Sustainability Standards Board (ISSB) in June 2023 issued two standards: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. The standards are effective from 1 January 2024, subject to adoption in individual jurisdictions (included in the update to the Board for BM 121 (Aug 23) [Agenda Item 7](#));
- 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 on 2 August 2023 (included in the update to the Board for BM 121 (Aug 23) [Agenda Item 7](#));
- the Australian Treasury is undertaking a staged consultation process on climate-related financial disclosure in Australia. Updates on the first stage of the consultation were provided to the Board at BM 118 (Feb 23) [Agenda Item 7](#) and for the second stage at BM 121 (Aug 23) [Agenda Item 7](#); and
- The IESBA agreed at their June 2023 Board Meeting to incorporate the profession-agnostic ethics and independence standards for sustainability assurance in a new part 5 of the Code (included in the update to the Board for BM 121 (Aug 23) [Agenda Item 7](#)).

International and other Developments

International Sustainability Standards Board (ISSB)

ISSB Meetings

The ISSB held a meeting on [14 September 2023](#) where they considered responses to the Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*.

The next ISSB meeting will be held virtually on 25 October 2023. It will focus on the development of educational material to support the implementation of IFRS S1 and IFRS S2 and to consider the responses received for the Methodology Exposure Draft.

Nature-related Financial Disclosures Taskforce recommendations

On 19 September 2023, the ISSB congratulated the Task Force on Nature-related Financial Disclosures (TNFD) on the publication of its recommendations, which assist companies in communicating nature-related risks and opportunities to investors and other stakeholders. Further information can be found in the ISSB's [media release](#).

Brazil adopts ISSB as a global baseline

The Brazilian Ministry of Finance and the Comissão de Valores Mobiliários (CVM) have announced that the ISSB IFRS Sustainability Disclosure Standards will be incorporated into the Brazilian regulatory framework, with a plan to transition from voluntary use starting in 2024 to mandatory use on 1 January 2026. Further information can be found in the ISSB's [media release](#).

International Auditing and Assurance Standards Board (IAASB)

From August to November 2023, IAASB implemented an extensive, high-level outreach plan to ensure broad stakeholder input to improve both the quality of and trust in the final standard. This plan included in-person roundtables around the world, [virtual webinars](#) for global audiences, and regional and national meetings with regulators and oversight bodies. Refer to the [media release](#) for information on the results of the outreach campaign.

International Ethics Standards Board for Accountants (IESBA)

At the IESBA's [September 2023 Board Meeting](#), the Board met with representatives from the International Accreditation Forum (IFA), IAG's Sustainability Working Group and the United Kingdom Accreditation Services (UKAS) to discuss the sustainability project.

The IESBA Board considered a first draft of the international ethics and independence standards for sustainability assurance engagements and the proposed revised glossary presented by the Sustainability taskforce. The IESBA will consider a revised draft for approval at its December 2023 meeting.

The key matters that the IESBA are dealing with are:

- The scope of the new Part 5 dealing with Sustainability Assurance;
- Ethics considerations for practitioners;
- Dealing with NOCLAR;
- determination of Public Interest Entities;
- consideration of Group Audits;
- using the work of another assurance practitioner;
- Long Association;
- Fees;
- Non-assurance services in the context of sustainability assurance engagements and
- Relationship with value chain entities

The Board will also consider a draft of the Use of Experts exposure draft for approval at the December 2023 meeting.

International Federation of Accountants (IFAC)

IFAC supports ISSB's focus on implementation of IFRS S1 and S2

On 1 September 2023, IFAC expressed support for the establishment of the ISSB and its development of a comprehensive global framework for sustainability disclosure, which is endorsed by IOSCO. Further information can be found in IFAC's [media release](#).

New IFAC study on sustainability disclosure and assurance beyond the G20

In September 2023, IFAC released a new report, [The State of Play: Beyond the G20](#), which considers sustainability disclosure and assurance data for the G20 plus 20 additional jurisdictions. The report shows that despite positive trends in sustainability assurance, the scope of assurance is narrowing, and there is fragmentation in terms of which assurance standard is used. Among the findings, 89% of companies reviewed reported some ESG information in 2021, with 48% of these companies receiving some level of assurance.

The study reveals that sustainability disclosure remains diverse but shows more connectivity with financial information. Only 19% of companies rely on stand-alone sustainability reports, in contrast to 50% in the G20. Assurance rates have increased from 37% to 48%, but engagements cover a narrower range of topics, with broader scope assurance declining from 74% in 2019 to 64% in 2021. Audit firms conducted the majority of assurance engagements (62%), and 81% of these engagements applied the IAASB's ISA 3000. Further information can be found in IFAC's [media release](#).

Public sector needs to prepare for sustainability reporting and assurance challenge

The International Public Sector Accounting Standards Board (IPSASB) is moving forward with the development of public sector-specific sustainability reporting standards, starting with a Climate-Related Disclosures standard. The ACCA, IFAC and IDI launched a [summary](#) of the importance of sustainability reporting and assurance in the public sector. It emphasised the need for high-quality international sustainability reporting standards and Supreme Audit Institutions' (SAIs) role in providing independent oversight of sustainability information generated by the public sector, thereby building public trust. Further information can be found in IFAC's [media release](#).

Australian Accounting Standards Board (AASB)

In preparation for the release of the Australian accounting standards related to sustainability, the AASB finalised at their [September 2023 Meeting](#) the *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* and the *AASB Sustainability Reporting Standard-Setting Framework*.

Exposure Draft SR1 Australian Sustainability Reporting Standards - Disclosure of Climate-related Financial Information

On 23 October 2023, the AASB released an Exposure Draft [ED SR1](#), which proposes climate-related financial disclosure requirements. ED SR1 is open for public comment until **1 March 2024**, and it encompasses three draft Australian Sustainability Reporting Standards (ASRS Standards):

- Draft ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* as the baseline but with a scope limitation to climate-related financial disclosure;
- Draft ASRS 2 *Climate-related Financial Disclosures*, developed using IFRS S2 *Climate-related Disclosures* as the baseline; and
- Draft ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service standard that would be updated periodically to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS Standards.

Draft ED SR1 was developed based on IFRS S1 and IFRS S2 with modifications to meet the needs of Australian stakeholders and to align with the Australian Government's direction on addressing climate-related financial disclosure. Consequently, the AASB proposes to limit the scope of disclosure requirements in Draft ASRS 1 to climate-related financial disclosures. Furthermore, all references to "sustainability" in IFRS S1 have been replaced with "climate" in ASRS Standards.

Other differences include references to the Conceptual framework for financial reporting with respect to for-profit entities and references to the framework for the preparation and presentation of financial statements with respect to not-for-profit entities, as it is not enforceable in Australia. The standard incorporates terminology suitable for not-for-profits to support sector neutrality. It does not include references to SASB Standards or the publication of the industry-based guidance accompanying IFRS S2. Additionally, it specifies that if an entity elects to make industry-based disclosures, the entity shall consider the applicability of well-established and understood metrics associated with particular business models and activities.

Further information on the exposure draft and the consultation process can be found in the AASB's [media release](#).

Auditing and Assurance Standards Board (AUASB)

Consultation Paper on IAASB's ED on Proposed ISSA 5000

On 30 August 2023, the AUASB released a [consultation paper](#) on the IAASB's Exposure Draft for Proposed ISSA 5000. The AUASB is seeking feedback on two key elements of the Consultation Paper:

- Australian-specific questions in Attachment 1; and
- IAASB ED 5000 in Attachment 2.

Comments are due to the AUASB by 10 November 2023.

During October 2023, the AUASB held in-person roundtables in Melbourne and Sydney, as well as a virtual roundtable to gather Australian stakeholder's feedback.

APESB Chairman Ms Nancy Milne and APESB CEO Mr Channa Wijesinghe attended the Sydney roundtable.

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.

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Date: 6 November 2023