

AGENDA PAPER

Item Number: 5
Date of Meeting: 5 March 2024
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 (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 (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 in BM 118 (Feb 23) [Agenda Item 7](#), and for the second stage in BM 121 (Aug 23) [Agenda Item 7](#);
- 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 (BM 121 (Aug 23) [Agenda Item 7](#)); and
- the Australian Accounting Standards Board (AASB) released an Exposure Draft [ED SR1](#), which proposes climate-related financial disclosure requirements through three draft Australian Sustainability Reporting Standards (BM 124 (Nov 23) [Agenda Item 7](#)).

International and other Developments

International Ethics Standards Board for Accountants (IESBA)

IESBA Meetings

At the IESBA's [December 2023 Board Meeting](#), the Board unanimously approved the exposure of three proposed new sections to the Code addressing using the work of an external expert – proposed Section 390 for professional accountants in public practice, proposed Section 290 for professional accountants in business, and proposed Section 5390 for sustainability assurance practitioners.

The Board also considered an update on the liaison between its Sustainability Task Force and the IESBA Sustainability Reference Group, coordination activities with the IAASB, the International Organization for Standardization (ISO) and the International Accreditation Forum (IAF), as well as other stakeholder engagement and outreach activities during Q4 2023.

The IESBA further discussed a draft communications and outreach plan to raise global awareness of the Sustainability and Use of External Experts EDs and promote the importance of the proposed ethics (including independence) standards, as well as stimulate diverse stakeholder feedback on the EDs.

IESBA proposes new ethical standards for sustainability reporting and assurance

On 29 January 2024, the IESBA released two Exposure Drafts (EDs): International Ethics Standards for Sustainability Assurance ED, which includes revisions to the existing Code related to sustainability reporting, and *Using the Work of an External Expert ED*.

The Exposure Draft on *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) and ethics standards for sustainability reporting proposes a clear framework of expected behaviours and ethics provisions for use by all sustainability assurance practitioners regardless of their professional backgrounds, as well as professional accountants involved in sustainability reporting.

The Exposure Draft on *Using the Work of an External Expert* proposes an ethical framework to guide professional accountants or sustainability assurance practitioners, as applicable, in evaluating whether an external expert has the necessary competence, capabilities and objectivity in order to use that expert's work for the intended purposes.

Further information on the Exposure Drafts can be found in the IESBA's [media release](#).

Comments on the Using the Work of an External Expert ED are requested by **30 April 2024**, and on the Sustainability ED by **10 May 2024**.

IESBA interactive webinars on the proposed IESSA

In late February and early March 2024, the IESBA is holding interactive global webinars to present the key proposals in the EDs on *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting and Using the Work of an External Expert. The webinars will provide useful information and valuable insights on the

proposals in the Exposure Drafts for participants from all stakeholder groups, including regulators, preparers of sustainability information, sustainability assurance practitioners from all backgrounds, and investors. The webinars will occur on 22 February, 27 February and 5 March 2024 (US Time). IESBA Board Member and APESB CEO Channa Wijesinghe will be one of the presenters for the 5 March 2024 webinar (Australian time, midday 6th of March). Further information on the interactive webinars can be found on the [IESBA's website](#).

Strategic Partnership announced between IESBA and IAF

In early February 2024, the International Accreditation Forum (IAF) and the International Ethics Standards Board for Accountants (IESBA) announced a strategic partnership to advance the use of a common framework of high standards of ethical conduct to underpin trust in the assurance of sustainability information.

The IAF and the IESBA have agreed to common objectives to support the growth of transparent, relevant, and trustworthy corporate sustainability disclosures. The cornerstone of the partnership is the IAF's stipulation to national accreditation bodies around the world that the IESBA's proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) are to be used when accrediting and authorizing conformity assessment bodies to carry out assurance work on corporate sustainability disclosures.

Among the key elements of the agreement, both the IAF and the IESBA:

- Recognise the importance of having a global baseline of high-quality ethics (including independence) standards consistently applied by and enforced on all providers of assurance services on corporate sustainability disclosures, whether audit firms, conformity assessment bodies or others.
- Agree on the importance of establishing connections between the two organisations and promoting consistent use of a global framework of high-quality ethics standards for sustainability assurance.
- Will collaborate to determine how to incorporate the IESSA as part of the accredited verification activities of ISO/IEC 17029-compliant programs as they apply to assurance of sustainability information.
- Will share strategic insights and perspectives on their respective work as it relates to assurance of corporate sustainability disclosures.
- Will explore collaboration with respect to training activities for accreditation bodies and conformity assessment bodies in relation to the proposed IESSA.

Further information is available in the [media release](#).

International Sustainability Standards Board (ISSB)

Targeted amendments to enhance the international applicability of the SASB Standards

In December 2023, the ISSB published amendments to the SASB Standards to enhance their international applicability. These amendments were intended to help preparers apply the SASB Standards regardless of the jurisdiction in which they operate or the type of generally accepted accounting principles (GAAP) they use without substantially altering the SASB Standards' structure or intent. The SASB Standards facilitate the implementation and application of IFRS S1 for preparers.

The amendments preserve the structure, completeness and original intention of the SASB Standards to maintain the metrics' decision-usefulness for users of general purpose financial reports and their cost-effectiveness for new and current users of the SASB Standards. Further information can be found in the ISSB's [media release](#).

Sustainability Innovation Lab

The Global Reporting Initiative (GRI) has announced the upcoming launch of the Sustainability Innovation Lab (SIL), in partnership with IFRS. The SIL is being established to enable companies to meet their evolving sustainability disclosure requirements, fostering professional development, training, practical solutions and innovative thinking. Further information can be found in the ISSB's [media release](#).

IFRS Foundation Knowledge Hub

The IFRS Foundation has launched the IFRS Sustainability knowledge hub to support use of the ISSB Standards from next year. The hub went live at COP28's Climate Action Day and is a key component of the IFRS Foundation's capacity building programme. Further information can be found in the ISSB's [media release](#).

Various organisations adopting ISSB as a global baseline

Close to 400 organisations from 64 jurisdictions have committed to advancing the adoption or use of the ISSB's climate-related reporting at a global level. This support comes from companies, investors, stock exchanges, the accountancy profession, multilaterals, NGOs, universities, data analytics providers, corporate advisors and others following the issuance of the first two ISSB Standards in June 2023. Further information can be found in the ISSB's [media release](#).

New resource on emissions reporting using GRI and ISSB Standards

The Global Reporting Initiative and IFRS jointly published a new analysis and mapping resource: *Interoperability considerations for GHG emissions when applying GRI Standards and ISSB Standards*. The publication illustrates the areas of interoperability a company should consider when measuring and disclosing Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions in accordance with both *GRI 305: Emissions* and *IFRS S2 Climate-related Disclosures*. Further information can be found in the ISSB's [media release](#).

International Federation of Accountants (IFAC)

IFAC announces plan to revise international education standards for sustainability reporting and assurance

In December 2023, IFAC announced plans to revise the International Education Standards to bring greater focus to sustainability reporting and assurance competence and recognise the evolving role of professional accountants in this area. IFAC anticipates launching a public consultation on proposed revisions to the standards in Q2 2024. Further information can be found in IFAC's [media release](#).

Integrated internal control is needed to build trust in sustainability reporting

In December 2023, IFAC published *Building Trust in Sustainability Reporting: The Urgent Need for Integrated Internal Control* to address the demand for high-quality sustainability reporting and to prepare professional accountants for mandatory international and jurisdictional reporting and assurance requirements. This analysis highlights how companies can integrate sustainability information within their existing internal control and governance frameworks. Further information can be found in IFAC's [media release](#).

IFAC publishes sustainability & education literature review

In January 2024, IFAC released a literature review, *Educating Accountants for a Sustainable Future: A Literature Review of Competencies, Educational Strategies, and Challenges for Sustainability Reporting and Assurance*. The review highlights key themes in current sustainability-related education, learning and development to provide insights into how the global accountancy profession can meet stakeholder demands for relevant and reliable sustainability reporting. Further information can be found in IFAC's [media release](#).

European Federation of Accountants and Auditors for SMEs

EFRAG launches consultation on SME sustainability reporting standards

On 22 January 2024, the European Financial Reporting Advisory Group (EFRAG) launched the public consultation on its Exposure Drafts on simplified sustainability reporting standards for listed SMEs and voluntary sustainability reporting standards for non-listed SMEs. The consultation will end on 21 May 2024. Further information can be found [here](#).

Australian Accounting Standards Board (AASB)

AASB – AUASB Joint Research Report: Trends in climate-related disclosures and assurance in the Annual Reports of ASX-listed entities

In November 2023, the AASB and AUASB published an updated joint Research Report that identifies climate-related disclosures and associated assurance practices in the Annual Reports of ASX-listed entities. This publication builds on the previously issued AASB-AUASB Research Report *Climate-related disclosures and assurance in the annual reports of ASX-listed companies* by extending the 2018-2021 sample period to 2022. Further information on the Research Report can be found in AASB's [media release](#).

Criticism of Australia's approach to implement sustainability reporting standards

Technical Staff have noted that some stakeholders have raised criticisms on LinkedIn¹ and at other forums on the way in which Australia will implement sustainability reporting standards. This is based on the AASB not proposing to adopt the full International Sustainability Standards in their recent exposure draft ED SR1. There is a concern that this approach will

¹ For example, two recent articles on LinkedIn on [AASB's adoption of International Sustainability Reporting Standards](#) and [Aussie finance sector warns government against activity](#).

lead to a loss of comparability globally and that it may also impact the attraction of global investors in the Australian market. The consultation period for ED SR1 closes on 1 March 2024. Technical Staff will monitor the outcomes of the consultation and update the Board on future developments.

Auditing and Assurance Standards Board (AUASB)

AUASB response to the IAASB on the Proposed International Standard on Sustainability Assurance

In December 2023, the AUASB submitted its response to the IAASB on the Proposed International Standard on Sustainability Assurance (ED-5000). Overall, the AUASB is supportive of ED-5000 as an over-arching standard on sustainability assurance that can be used as a global baseline. However, the AUASB has strong reservations about the ability of the standard to be applied by all assurance practitioners and considers that ED-5000 would not be very accessible or easily understood by non-accountants. The AUASB also strongly disagrees with the approach to quality management and ethics underpinning ED-5000 and anticipates some practical challenges that practitioners will face in implementing ISSA 5000. Further information can be found in the AUASB's [media release](#).

APESB

APESB Roundtable on IESBA Sustainability EDs

APESB is hosting a roundtable event to gather stakeholder feedback on IESBA's Sustainability exposure drafts, as part of developing APESB's submissions to the IESBA.

The event will be held online from 10 am on Tuesday, 26 March 2024. This will be an opportunity for attendees to share views and thoughts on these proposals. Stakeholders interested in attending the roundtable can register their interest through email to Ann.Chang@apesb.org.au.

Recommendation

That the Board note the update on sustainability-related developments.

Authors: Jacinta Hanrahan
Shannon Heng

Date: 19 February 2024