

AGENDA PAPER

Item Number: 5
Date of Meeting: 3 September 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 following:

- the International Sustainability Standards Board (ISSB) issued two standards in June 2023: 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 International Auditing and Assurance Standards Board (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](#)) and subsequent deliberations (BM 126 (Jun 24) [Agenda Item 4](#));
- 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](#)) with the IESBA issuing two exposure drafts related to sustainability assurance (BM 125 (Mar 24) [Agenda Item 5](#));
- the International Public Sector Accounting Standards Board (IPSASB) commenced a project to develop a public sector climate-related disclosure standard (BM 126 (Jun 24) [Agenda Item 4](#));
- 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](#)), on the second stage in BM 121 (Aug 23) [Agenda Item 7](#)), and the legislation process were in (BM 125 (Mar 24) [Agenda Item 4](#)) and (BM 126 (Jun 24) [Agenda Item 4](#)); and

- Australian Accounting Standards Board (AASB) released an exposure draft, [ED SR1](#), which proposes climate-related financial disclosure requirements through three drafts of Australian Sustainability Reporting Standards (BM 124 (Nov 23) [Agenda Item 7](#)) and subsequently decided also to add a non-mandatory ('voluntary') standard that would cover sustainability-related financial disclosures (BM 126 (Jun 24) [Agenda Item 4](#)).

International and other Developments

Public Interest Oversight Board (PIOB)

Publication of 2024 Q2 quarterly oversight publications

The PIOB published PIOB's *Public Interest Issues – IESBA projects July 2024*, a pre-meeting briefing memo and a post-meeting observation memo for the IESBA June 2024 Board meeting. The publication and memos summarise the latest developments in IESBA key projects, including sustainability reporting and assurance and use of experts following the IESBA June 2024 and PIOB July 2024 Board meetings. In the Public Interest Issues publication, in relation to sustainability reporting and assurance, the PIOB noted the following areas of potential questions and concerns for the IESBA to consider:

- the importance of coordination between IESBA and IAASB on the clarity of the standard and consistency within the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code). The PIOB notes that they are of the strong view that only in exceptional instances should there remain inconsistencies between the respective standards;
- the scope of the new Part 5 and applicability of Part 4B of the IESBA Code. However, the PIOB highlighted that the IESBA has addressed these concerns and the approach is now adequately explained;
- proportionate independence requirements for value chains. The PIOB notes that the exposure draft included this as a key issue for the IESBA to address, while not diminishing the level of independence required by the public interest; and
- independence and categorisation of sustainability assurance. The PIOB welcomed the IESBA's consultation in this regard.

The Q2 2024 PIOB Oversight Publications can be found [here](#).

International Ethics Standards Board for Accountants (IESBA)

IESBA June Meeting

At the [IESBA June 2024 Board Meeting](#), the IESBA Board considered:

- a high-level summary of the key matters raised by respondents to the Sustainability exposure draft (ED). The matters included coordination of the IESBA and IAASB Sustainability projects, the scope of the International Independence Standards, Non-assurance services and responding to non-compliance with laws and regulations (NOCLAR). The IESBA will receive a full analysis of the respondents' comments on the exposure draft and the Taskforce's proposed revisions at its September 2024 meeting; and

- a high-level comparison between the ethics (including independence) framework applicable to sustainability assurance engagements in the European Union (EU) legislation and the proposed IESSA. This benchmarking intends to inform the IESBA about the key similarities and differences between the two ethics frameworks.

IESBA Comment Letter – Draft Guidelines on Limited Assurance Sustainability Engagements issued by the Committee of European Auditing Oversight Bodies (CEAOB)

On 22 July 2024, IESBA submitted a comment letter to the CEOB regarding their draft non-binding guidelines on limited assurance of sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU). Starting from financial years beginning on or after 1 January 2024 until the EC adopts an assurance standard at the EU level by 1 October 2026, large companies in the EU are required to draw up sustainability statements in accordance with the European Sustainability Reporting Standards (ESRS). These statements are subject to an assurance engagement by statutory auditors or other assurance services providers.

The IESBA supported the proposal but noted the critical need for the guidelines to include robust ethics and independence requirements to ensure that the assurance framework operates with quality, integrity, and effectiveness. To achieve this, the IESBA recommended that the CEOB consider leveraging the IESBA Code in developing and finalising the draft guidelines, pending the IESBA's finalisation of the proposed IESSA.

Further information on this news can be found in IESBA's [News](#).

International Public Sector Accounting Standards Board (IPSASB)

World Bank supports IPSASB to develop the Climate-related Disclosures Standard for the public sector

On 11 June 2024, IPSASB announced support from the World Bank for the development of the IPSASB climate-related disclosures Standard, which will be the IPSASB's inaugural Sustainability Reporting Standard.

The IPSASB continued the development of the Climate-related Disclosures ED by reviewing the proposed principles on metrics and targets, transitional provisions, and general requirements. The IPSASB plans to approve the ED at its September 2024 meeting.

Further information on this project can be found in IPSASB's [News](#) and [Work Program](#).

International Accounting Standards Board (IASB)

Exposure Draft for Climate-related and Other Uncertainties in the Financial Statements

On 31 July 2024, the IASB published an ED [Climate-related and Other Uncertainties in the Financial Statements](#), proposing eight examples to illustrate how companies apply IFRS Accounting Standards when reporting the effects of climate-related and other uncertainties in their financial statements. The illustrative examples focus on areas such as materiality judgements, disclosures about assumptions and estimation uncertainties, and disaggregation of information. The principles and requirements illustrated in these examples apply equally to other types of uncertainties beyond climate-related uncertainties.

The comment period of the ED is open until 28 November 2024.

International Sustainability Standards Board (ISSB)

Strategic partnership of IFC and IFRS Foundation to improve sustainability reporting in emerging markets

On 27 June 2024, the International Finance Corporation (IFC), a member of the World Bank Group, and the IFRS Foundation signed a Memorandum of Understanding agreeing their strategic partnership to strengthen sustainable capital markets by improving sustainability and climate reporting in emerging markets and developing economies (EMDEs). The partnership will focus on implementing programmes to promote and build capacity for the consistent application of the IFRS Sustainability Disclosure Standards across EMDEs. This includes developing toolkits and research publications as well as conducting training programmes to encourage sustainability reporting. Further, the partnership outlines plans to provide technical assistance and tailored support to help jurisdictions adopt and implement these Standards effectively.

Further information on this news can be found in IFRS Foundation's [News](#).

ISSB published a Feedback Statement on the Next Two-Year Work Plan during the 2024 IFRS Foundation Conference

On 24-25 June 2024, the IFRS Foundation held its annual Conference to report on the latest IASB and ISSB developments. At the conference, the ISSB published the ISSB's [Feedback Statement-Consultation on Agenda Priorities](#) on its next two-year work plan, and provided updates on:

- progress in the adoption of the IFRS Sustainability Disclosure Standards, following the publication of the [Inaugural Jurisdictional Guide](#);
- the [ESRS-ISSB Standards Interoperability Guidance](#) developed to help companies navigate between ISSB Standards and the European Sustainability Reporting Standards;
- developments in the ISSB's strategic relationships between ISSB and the Transition Plan Taskforce, GHG Protocol, CDP, Taskforce on Nature-related Financial Disclosures and Global Reporting Initiative. These strategic relationships aim to harmonise the sustainability disclosure landscape and to strengthen the global baseline; and
- the future focus of the ISSB as it embarks on its next two-year work plan.

Further information on the 2024 IFRS Foundation Conference can be found in the IFRS Foundation's [News](#).

International Auditing and Assurance Standards Board (IAASB)

Update on the Proposed International Standard on Sustainability Assurance (ISSA 5000)

At the June 2024 IAASB meeting, the IAASB considered the analysis and drafting proposals in the proposed ISSA 5000 ED relating to the following topics:

- public interest responsiveness;
- preconditions;
- estimates and forward-looking information;
- fraud;

- communication with management, those charged with Governance and others;
- reporting;
- public sector considerations; and
- translation.

The IAASB also considered the proposed revisions for the complete draft Standard, including requirements and application.

At the July 2024 mid-quarter IAASB meeting, the IAASB considered the revisions to specific paragraphs in the proposed ISSA 5000 ED to address IAASB-IESBA coordination on the following matters:

- premises of quality management and relevant ethical requirements:
- group assurance engagements, including group and value chain components;
- using the work of another practitioner.
- using the work of a practitioner's expert;
- communication with the auditor;
- select matters on transparency in the assurance report; and
- effective date of standards.

The IAASB intends to approve the final Standard in September 2024, with publication before the end of 2024, after certification of the standard by the Public Interest Oversight Board. Further information on the proposed ISSA 5000 can be found on IAASB's [project website](#).

International Federation of Accountants (IFAC)

IFAC publication – Sustainability Assurance: What to Expect

In June 2024, IFAC released a new publication [Sustainability Assurance: What to Expect](#), setting out how IFAC is taking steps to help all sustainability information users, including the accountancy profession, market regulators, preparers, and investors, to understand and prepare for what high-quality sustainability assurance will look like. In the publication, IFAC calls on all sustainability information users to engage with one another and develop a shared understanding of, and commitment to, high-quality sustainability assurance. Further information can be found in IFAC's [Media Release](#).

European Financial Reporting Advisory Group (EFRAG)

EFRAG releases study on early implementation of ESRS

On 25 July 2024, EFRAG issued a [State of play as of Q2 2024 - Implementation of European Sustainability Reporting Standards \(ESRS\): Initial Observed Practices from Selected Companies](#). The study analyses 28 large EU-headquartered companies with undertakings across eight sectors that are split between financial and non-financial enterprises. The emerging practices were analysed against four focus areas particularly relevant to the implementation of ESRS: Materiality assessment, Value Chain, Gap analysis on data points, and ESG reporting organisational approach. The study showed the companies had initiated an organisation-wide approach to ESG reporting. Further information is available in EFRAG's [News](#).

EFRAG and Taskforce on Nature-related Financial Disclosures (TNFD) jointly published correspondence mapping between ESRS and TNFD's disclosure metrics

On 20 June 2024, the Taskforce on Nature-related Financial Disclosures (TNFD) and the European Financial Reporting Advisory Group (EFRAG) jointly published a [Correspondence mapping](#) between the European Sustainability Reporting Standards (ESRS) and the TNFD's recommended disclosures and metrics. This mapping will help European undertakings in the scope of the Corporate Sustainability Reporting Directive (CSRD) that consider alignment with TNFD. The mapping illustrates the high level of correspondence achieved and highlights that ESRS reflect all 14 TNFD-recommended disclosures.

Further information is available in EFRAG's [News](#).

EFRAG issues three implementation guidance notes for ESRS

On 31 May 2024, EFRAG announced the finalisation of its first three European Sustainability Reporting Standards (ESRS) Implementation Guidance documents for ESRS implementation:

- [EFRAG IG 1: Materiality Assessment](#) – provides an illustrative materiality assessment process for undertakings and develops the concepts of impact and financial materiality with examples, including how these two concepts interplay.
- [EFRAG IG 2: Value Chain](#) outlines the reporting requirements for the value chain, from materiality assessment to policies and actions to metrics and targets. It illustrates the group's reporting boundary for sustainability reporting, including the concept of operational control in environmental standards. The VCIG also includes a 'value chain map' summarising value chain implications per disclosure requirement across all ESRS.
- [EFRAG IG3: List of ESRS Datapoints](#) and accompanying [Explanatory Note](#) – translates the complete ESRS Set 1 list of detailed requirements in each Disclosure Requirement and related Application Requirements in Excel format. The file contains additional information, such as the types of requirements (for example, quantitative or qualitative) and can form the basis for a data gap analysis or data collection exercise.

Further information is available in EFRAG [News](#).

Australian Developments

Australian Accounting Standards Board (AASB)

Australian Sustainability Reporting Standards

At their 26 June and 19 July 2024 Board Meetings, the AASB continued their deliberations on the feedback received on ED SR 1. The AASB considered the proposed modifications to the baseline requirements of the IFRS Sustainability Disclosure Standards proposed in ED SR1 and made a number of key changes to the proposals to revert to the baseline of ISSB Standards, including scope, cross-industry metrics, greenhouse gas emissions, finance emissions, carbon credits and climate-related scenario analysis.

The AASB also decided to add separate projects to the AASB work plan to consider the suitability of the SASB Standards, IFRS S2 Industry-based Guidance, and industry-based disclosure requirements after the ASRS Standards have been finalised.

The AASB will discuss final drafting-related issues at their 26 and 30 August 2024 Board meetings. Shortly after, subject to the passage of legislation, the AASB plans to issue the final ASRS.

Further information is available in the [AASB Action Alert](#) for the June 2024 and July 2024 Board Meetings and the AASB's [News](#) and [Climate Disclosures Consultation Update](#).

Auditing and Assurance Standards Board (AUASB)

Development of Exposure Draft for Australian Sustainability Assurance Standard

At their Board meeting on 17 July 2024, the AUASB discussed an early draft of the ED of an Australian Assurance Standard on *Australian Sustainability Information* (ASSA 5010). The AUASB will continue to develop an ED for consideration at its Board meeting on 6 August 2024. Further information can be found in the AUASB meeting [Board Meetings, Minutes & Highlights](#).

Australian Securities and Investments Commission (ASIC)

ASIC's – Mercer Greenwashing Case Result

On 2 August 2024, ASIC reported that the Federal Court had ordered Mercer Superannuation (Australia) Limited to pay a \$11.3 million penalty after it admitted it made misleading statements about the sustainable nature and characteristics of some of its superannuation investment options. This was ASIC's first greenwashing case brought before the Federal Court.

The Federal Court found Mercer made misleading statements on its website about seven 'Sustainable Plus' investment options offered by the Mercer Super Trust, of which Mercer is the trustee. These statements marketed the Sustainable Plus options as suitable for members who 'are deeply committed to sustainability' because they excluded investments in companies involved in carbon-intensive fossil fuels, alcohol production and gambling. The Federal Court found these Sustainable Plus options had investments in:

- 15 companies involved in the extraction or sale of carbon-intensive fossil fuels (including AGL Energy Ltd, BHP Group Ltd, Glencore PLC and Whitehaven Coal Ltd),
- 15 companies involved in the production of alcohol (including Budweiser Brewing Company APAC Ltd, Carlsberg AS, Heineken Holding NV and Treasury Wine Estates Ltd), and
- 19 companies involved in gambling (including Aristocrat Leisure Limited, Caesar's Entertainment Inc, Crown Resorts Limited and Tabcorp Holdings Limited).

ASIC said the case demonstrates the importance of making accurate ESG claims to investors and potential investors. Further information is available in ASIC's [Media Release](#).

Australian Government - Treasury

Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024

The climate-related financial disclosures Treasury Bill - *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (the Bill) was introduced into the House of Representatives in March 2024 and had its first reading in the Senate on 24 June 2024. A

second reading in the Senate has been agreed to but has not occurred at the date of drafting this report. Further information on the Bill can be found on the Parliament [website](#).

APESB

APESB Sustainability Taskforce

The application period for nomination of members for the APESB Sustainability Taskforce closed on 30 June 2024. APESB is reviewing the nominations received and will update the Board on the taskforce's composition in due course.

Recommendation

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

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