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Mr Channa Wijesinghe
Chief Executive Officer
Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne VIC 3000
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via email: sub@apesb.org.au

12 May 2025

Dear Mr Wijesinghe,

In this response KPMG Australia is responding to the following consultations:

- **APESB Exposure Draft ED 01/25 'Proposed Australian Ethics Standards for Sustainability Assurance (including Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting'**
- **APESB Exposure Draft ED 02/25 'Proposed Revisions to the Code Addressing the Work of an External Expert'**

KPMG Australia (KPMG) welcomes the opportunity to comment on the proposed revisions set out in the Exposure Drafts. KPMG is supportive of the APESB's intent to clarify the ethics and independence requirements for sustainability assurance engagements.

KPMG has been actively involved in recent consultation processes on the topic of climate and sustainability disclosures, including the December 2024 submission to ASIC on *Consultation Paper 380*, November 2024 submissions to the AUASB on the *Proposed Australian Standard on Sustainability Assurance* and *Prohibiting Sustainability Assurance Practitioners from using Direct Assistance by Internal Auditors*, May 2024 submission to the AUASB on *Assurance over Climate and Other Sustainability Information*, and 2023 submissions to Treasury on *Climate-related financial disclosure*.

In these responses KPMG has consistently supported the adoption of a globally consistent disclosure of sustainability-related information, accompanied by a robust assurance regime.

We note that the AUASB has recently consulted on an exposure draft for ASSA 5000, to which KPMG has responded. We understand that the AUASB is due to consider amendments to ASSA 5000 at their upcoming board meeting, including considering deferring the application of Part 5. KPMG recommended this in our response to the AUASB and would welcome the amendment.

Given the overlapping regulatory areas and need for consistency in this area, it would be beneficial for APESB, AUASB and ASIC to work collaboratively to issue clear guidance on key issues to ensure consistent interpretation and application of the regime.

In this submission, we make several comments and suggestions where we believe the Exposure Drafts should be clarified or strengthened.

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Exposure Draft 01/25 'Proposed Australian Ethics Standards for Sustainability Assurance (including Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting'

General purpose and special purpose financial statements

The Exposure Draft includes the terms 'General purpose' and 'Special purpose' financial statements. Although there are definitions for these categories, there is confusion regarding their application to ESG reporting frameworks in Australia. Therefore, further clarity on their definitions and examples of what would fit into each category in this context should be provided.

Assurance work performed at Value Chain Components (VCCs)

The proposed provisions in the Exposure Draft in Sections 5405 and 5406 applicable to assurance work performed at value chain components are proposed to be effective for sustainability assurance engagements on sustainability information on or after 1 January 2027.

KPMG recommends aligning the VCC effective date in the APES Exposure Draft with that of the International Code (IESSA), which is effective for the periods beginning on or after 1 July 2028, or as at a specific date on or after 1 July 2028.

Transitional provisions

Should the VCC effective date not be aligned with the International Code (IESSA) as per our recommendation above, KPMG makes the following comments on transitional provisions.

The ED addresses Transitional Provisions for Sustainability Assurance Engagements on Sustainability Information for periods starting before, or as of, 1 July 2028, which involve assurance work performed at a VCC.

Paragraph (c) requires that the Group Sustainability Assurance Firm publicly disclose that Independence provisions under the AESSA (Part 5 of the APES Code) have not been applied due to a deferred effective date specified in the AESSA.

This disclosure is unnecessary and impractical if the firm adheres to the effective date in the AESSA and may be confusing to users of the assurance opinion regarding the auditor's independence. Further, disclosures are not usually required when other transitional provisions are adopted, so it is unclear why it would be necessary in this context. Lastly, making these disclosures would increase compliance costs without a clear demonstrated benefit given it may create confusion to users of the audit opinion.

Independence considerations for Public Interest Entities

Paragraphs R5405.30A to 5405.31 A2 outline the independence considerations for individuals performing assurance work at a VCC.

For paragraphs 5405.30A A1, 5405.30B A1, and 5405.31 A1, further guidance *or* revisions are required to clarify the specific independence provisions that apply to Public Interest Entities. It is evident that members of the Group Sustainability Assurance Team performing assurance work at the VCC are not required to comply with these provisions, but the exact provisions in question are unclear. This matter is not addressed in Appendix 3 of the Basis to Conclusions to the IESAA (as issued by IESBA).

Exposure Draft ED 02/25 'Proposed Revisions to the Code Addressing the Work of an External Expert'

KPMG considers that the proposed requirements will be challenging for external experts and smaller firms that are not currently subject to independence requirements. To address this, a longer period of safe harbour may be required to allow sufficient time to implement the necessary requirements and any system upgrades.

The ED outlines criteria for assessing the independence of an external expert, including considering the existence and adequacy of a system of quality management (SoQM). This is an onerous and

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burdensome requirement for external experts who have not previously been subject to such requirements, for example sustainability experts that don't currently provide audit services. In the absence of a regulatory requirement, they would find it difficult to demonstrate the existence of a SoQM. Additionally, we consider that assessing the adequacy of the SoQM would be difficult without further guidance.

KPMG appreciates the opportunity to provide feedback and looks forward to continued engagement on the sustainability reporting and assurance regime. Should you wish to discuss the contents of this submission further, please do not hesitate to reach out.

Yours sincerely

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KPMG Australia