

17 February 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via Email: climatereportingconsultation@treasury.gov.au

Dear Sir/Madam,

Climate-related financial disclosure – Consultation Paper December 2022

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the Treasury's *Climate-related financial disclosure – Consultation Paper December 2022* (Climate-related financial disclosure CP).

APESB is an independent entity with a primary purpose to develop, issue, and maintain high-quality professional and ethical pronouncements for the Australian accounting profession in the public interest. APESB's pronouncements apply to the members of the three major Australian professional accounting bodies; Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA).

The existence of professional and ethical standards to govern the conduct of accountants when they are preparing, reporting and providing assurance is a critical aspect of the accounting profession. We believe that a strong framework of professional and ethical standards assists accountants in addressing ethical issues when they arise and, when adhered to, establishes robust professional conduct and contributes to the stakeholders' confidence in the work accountants perform.

APESB's Role in Australia's Financial Reporting Framework

In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110). When firms provide audits, reviews and other assurance engagements, the firm and its auditors are required to be independent in mind and appearance. The independence requirements are set out in Part 4A *Independence for Audit and Review Engagements* and Part 4B *Independence for Assurance Engagements Other than Audit and Review Engagements* of APES 110.

APES 110 is based on and adapted from the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (International Code) issued by the International Ethics Standards Board for Accountants (IESBA). APES 110 has the force of law for audits and reviews performed of entities subject to the *Corporations Act 2001*¹ or specified entities under the *Superannuation Industry (Supervision) Act 1993* and *Superannuation Industry (Supervision) Regulations 1994*.²

APESB has issued 20 other pronouncements, including standards at the firm level and pronouncements on a range of professional services, including non-assurance services such as taxation, valuation, forensic accounting, insolvency, financial planning, due diligence committees and outsourced services. The following standards are particularly relevant to the Australian financial reporting framework:

- [APES 205 Conformity with Accounting Standards](#)
- [APES 210 Conformity with Auditing and Assurance Standards](#)
- [APES 315 Compilation of Financial Information](#) (APES 315)
- [APES 320 Quality Management for Firms that provide Non-Assurance Services](#) (APES 320)

The Professional Standards Councils of Australia reviews the accounting professional bodies' (CA ANZ, CPA Australia and the IPA) processes to monitor compliance with APESB standards by their members, as part of the approval of the Professional Standards Schemes.

IESBA's Role in International Sustainability Reporting and Assurance

The IESBA has a current strategic focus on sustainability. This focus recognises the importance of ethics and independence in the production, reporting and assurance of sustainability information. It sets up the IESBA's ethics and independence standards as the third pillar to trustworthy sustainability reporting and assurance, together with the standards being developed by the International Sustainability Standards Board (ISSB) and International Auditing and Assurance Standards Board (IAASB).³

Two new projects were approved at IESBA's November-December 2022 Board meeting:⁴

(a) Sustainability project:

- Profession-agnostic independence standards for use by all sustainability assurance practitioners; and
- Specific ethics provisions relevant to sustainability reporting and assurance.

¹ The Auditing and Assurance Standards Board (AUASB) has issued auditing standards as legislative instruments, effective for financial reporting periods commencing on or after 1 July 2006. These auditing standards have force of law under sections 307A and 336 of the *Corporations Act 2001*.

To the extent that the force of law auditing standards refer to ethical requirements, for example in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*, the relevant APESB standards have the same legal enforceability.

² Refer section 128F(d) of the *Superannuation Industry (Supervision) Act 1993* and regulation 9A.06 of the *Superannuation Industry (Supervision) Regulations 1994*.

³ [IESBA-December-2022-Sustainability-Update.pdf \(ifac.org\)](#)

⁴ [November-December-2022-IESBA-Meeting-Highlights.pdf \(ifac.org\)](#)

- (b) Experts project – specific ethics and independence provisions addressing the use of experts by organisations and in the context of audit and assurance engagements (including sustainability assurance).

The IESBA will conduct a series of global roundtables to inform the development of exposure drafts relating to the above projects during March and April 2023, covering Europe, the Middle East and Africa, Asia, Oceania and the Americas.

The IESBA has also established a Sustainability Coordination Committee to oversee the coordination of the above projects and to engage with the International Organization of Securities Commissions (IOSCO), ISSB and IAASB⁵ “with a view to achieving interoperable global standards for sustainability reporting and assurance”.⁶

IOSCO has endorsed the work of the IESBA and the IAASB on assurance of sustainability-related corporate reporting and particularly “towards high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support limited, and ultimately, reasonable assurance of sustainability-related information”.⁷

APESB’s Role in Australian Sustainability Reporting and Assurance

Sustainability is a strategic priority of the APESB per our [Strategy and Work Plan 2021-2025](#). The IESBA’s work on its sustainability projects will result in amendments to the International Code and will ultimately be included in APES 110. In addition, APESB will coordinate the IESBA’s Sustainability Roundtable in Sydney on 30 March 2023.

APESB is an observer at the Australian Accounting Standards Board (AASB) and AUASB [Sustainability Reporting Project Advisory Panel](#). Additionally, since April 2022, Australian standard setters (including APESB) and accounting professional bodies have met periodically to monitor and discuss standard-setting and profession-wide sustainability issues.

APESB Chief Executive Officer, [REDACTED] is a public interest Board member of IESBA. [REDACTED] was also recently appointed as a member of the IESBA sustainability working group in respect of independence standards.

APESB participates in and influences global and local sustainability reporting and assurance developments when it impacts or interrelates with professional and ethical standards. APESB has undertaken to review its pronouncements in light of sustainability-related issues and to develop a guidance document on ethical considerations for such issues.

APESB strongly believes that APESB’s standards (particularly APES 110) will be integral to sustainability reporting and assurance in Australia. This aligns with the international approach of three pillars of standards from the ISSB, IAASB and IESBA towards developing trustworthy sustainability reporting and assurance.

⁵ [IESBA-December-2022-Sustainability-Update.pdf \(ifac.org\)](#)

⁶ [November-December-2022-IESBA-Meeting-Highlights.pdf \(ifac.org\)](#)

⁷ [IOSCO encourages standard-setters’ work on assurance of sustainability-related corporate reporting](#)

Other Comments

Appendix A provides APESB's responses to the specific questions in the Climate-related financial disclosure CP that are relevant to APESB's mandate of issuing professional and ethical pronouncements for the Australian accounting profession.

We trust you find these comments useful in your deliberations. If you wish to discuss this further or require additional information, please contact APESB's Chief Executive Officer, [REDACTED], at [REDACTED] [@apesb.org.au](mailto:[REDACTED]@apesb.org.au).

Yours sincerely

[REDACTED]

[REDACTED]
Chairman

APPENDIX A

APESB's Responses to the Questions in the Climate-related financial disclosure CP

APESB's responses to the specific questions in the Climate-related financial disclosure CP that are relevant to APESB's mandate are as follows:

1.2 *What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?*

APESB believes there would be significant costs if Australia does not align with international practice and global baseline standards for climate reporting. We agree with the comments in the Climate-related financial disclosure CP that climate change is a material risk to the global financial system, which can be managed through appropriate disclosure of the associated risks. If Australia does not align with international best practices, there is a risk of not meeting stakeholder demands for better quality, internationally comparable disclosures, potentially undermining the information required by the capital markets.

Question 2: *Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?*

APESB supports Australia adopting a phased approach to climate disclosure, with the first reporting in the 2024-25 financial year. We agree that initially targeting larger entities maximises the initial benefit from increased transparency, and such entities have more resources to respond appropriately.

2.1 *What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?*

APESB is of the view that the level of public interest in an entity could be a consideration in determining cohorts (refer to the response to Question 3.2).

3.2 *Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?*

APES 110 imposes more extensive requirements for audit clients that are Public Interest Entities (PIEs), recognising the extent of public interest in an entity directly impacts how threats are identified, evaluated and addressed. PIEs include listed entities⁸ and those with a large number and wide range of stakeholders, which in Australia includes entities regulated by the Australian Prudential Regulation Authority, such as deposit-taking institutions, insurers, disclosing entities and registerable superannuation entities.⁹

⁸ PIEs are defined in the Glossary and paragraphs 400.8 to AUST 400.8.1 A1 of APES 110. APESB issued an Exposure Draft (ED) on [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110](#) in July 2022, which is now closed for public comment. Submissions on this ED will be considered at an upcoming Board meeting.

⁹ Paragraph AUST 400.8.1 A1 of APES 110 lists specific entity types that are likely to be PIEs in Australia.

Question 4: *Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?*

APESB generally supports Australia's alignment with international financial reporting, sustainability reporting, assurance, and ethical standards.

4.2 *Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?*

APESB believes the adoption of the ISSB standards in Australia will enhance Australia's compliance with international standards, which currently consist of standards issued by IESBA (adopted by APESB), IASB (adopted by AASB) and IAASB (adopted by AUASB). This will also influence Australia's ability to attract funding in global capital markets.

Question 5: *What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?*

APESB believes that the overarching obligation to comply with sustainability standards should be incorporated into legislation, and the detail of sustainability disclosure obligations should be set out in the sustainability standards and guidance.

Question 8: *What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?*

The IAASB is developing an assurance standard specific to sustainability, Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, which includes requirements from existing standards, ISAE 3000 (Revised) *Assurance Engagements Other than Audit or Review of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*.¹⁰ The proposed ISSA 5000 is being developed to be profession-agnostic, so it will apply to professional accountants and other experts that provide such assurance.

APESB strongly believes that assurance providers should be subject to independence and quality management standards. The IESBA sustainability project (refer to page 2 of this submission) is specifically looking at developing profession-agnostic independence standards for sustainability assurance practitioners. Ultimately, these independence standards will be applicable in Australia, subject to APESB's due process.

IOSCO has endorsed the IESBA and IAASB work on developing profession-agnostic standards for assurance of sustainability-related corporate reporting.¹¹

Australian assurance providers are subject to Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other*

¹⁰ [20221205-Agenda-Item-7-ISSA-5000-Principles-Concepts.pdf \(ifac.org\)](#)

¹¹ [IOSCO encourages standard-setters' work on assurance of sustainability-related corporate reporting](#)

Financial Information, and Other Assurance or Related Services Engagements issued by the AUASB in March 2021.¹²

APESB also believes a critical aspect of the trustworthiness of sustainability disclosures is the capability and competence of preparers of disclosures. Australian professional accountants performing non-assurance services are subject to [APES 320 *Quality Management for Firms that provide Non-Assurance Services*](#). Having a quality management standard that applies to non-assurance services puts Australia in a unique position compared to other jurisdictions.

Question 13: *Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?*

Professional competence and due care is one of APES 110's five fundamental principles. Subsection 113 *Professional Competence and Due Care* in APES 110 requires members to attain and maintain professional knowledge and skill at the level required to ensure competent professional activities are provided, based on current technical and professional standards, and to act diligently in accordance with those standards.

Due to the rapid pace of change, professional accountants/assurance providers may not have sufficient capacity and time to develop the skill sets required to undertake sustainability engagements and comply with new requirements. This highlights the importance of incorporating an ethical framework applicable to sustainability engagements, including assurance, to ensure reliable and comparable output.

Question 16: *Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements and how should these interactions be addressed?*

APESB is of the view that the new climate reporting requirements will likely interact with reporting obligations under specific APESB standards in certain circumstances. For example:

- APES 315 [Compilation of Financial Information](#) sets out the fundamental responsibilities of members and obligations in respect of planning, defining terms of engagement, procedures to follow, dealing with misstatements, documentation and reporting on a compilation engagement.
- APES 345 [Reporting on Prospective Financial Information prepared in connection with a Public Document](#) sets out professional and ethical obligations in respect of a report on or in connection with the prospective financial information included in a public document.
- APES 350 [Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document](#) sets out professional and ethical responsibilities when participating in and/or reporting to a due diligence committee.

APESB is reviewing its pronouncements for sustainability-related issues and to develop a guidance document on ethical considerations for such issues.

¹² ASQM 1 became effective on 15 December 2022 and conforms with the international equivalent ISQM 1 *Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* issued by the IAASB.

Question 17: *While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?*

APESB believes the reforms must be sufficiently flexible to incorporate other environmental, social and governance (ESG) reporting. Climate reporting is but one aspect of sustainability reporting. As highlighted in the Climate-related financial disclosure CP, the ISSB standards will incorporate social and governance disclosures such as labour standards, tax transparency, diversity and relations with first nations stakeholders.

Question 18: *Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?*

APESB agrees that digital reporting of sustainability risk reporting would provide better opportunities for investors, auditors and regulators to analyse and interrogate sustainability data. Whilst the uptake of digital financial reporting has been limited to date, this was considered as part of the Parliamentary Joint Committee on Corporations and Financial Services inquiry into the Regulation of Auditing in Australia (PJC Inquiry). The PJC Inquiry considered the status, benefits and costs of implementing digital financial reporting¹³ and its Recommendation 10 was that:¹⁴

The committee recommends that the Australian Government take appropriate action to make digital reporting standard practice in Australia.

Question 19: *Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?*

The Australian financial reporting framework described in the Climate-related financial disclosure CP does not incorporate the role of the APESB as set out in the cover letter to this submission. APESB strongly believes APESB's standards (particularly APES 110) will be integral to sustainability reporting and assurance in Australia. This aligns with the international approach of three pillars of standards from the ISSB, IAASB and IESBA towards developing trustworthy sustainability reporting and assurance.¹⁵

¹³ Refer paragraphs 5.41 to 5.59 of [Regulation of Auditing in Australia: Interim Report \(aph.gov.au\)](https://aph.gov.au)

¹⁴ The government had not responded to the PJC Inquiry recommendations at the date of this submission.

¹⁵ [IESBA-December-2022-Sustainability-Update.pdf \(ifac.org\)](https://www.ifac.org)