APESB

Accounting Professional & Ethical Standards Board

AGENDA PAPER

Item Number:	6
Date of Meeting:	17 June 2025
Subject:	Review and Consideration of comments – ED 01/25 Australian Ethics Standards for Sustainability Assurance and Reporting (AESSA)

X	**Action Required**	X	**For Discussion**		**For Noting**		**For Information**

Purpose

To:

- provide the Board with a summary of the key issues identified in the submissions received on 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 (AESSA)*; and
- seek the Board's approval, subject to the Board's review, comments and editorials, for the AESSA Standard (refer to the proposed combined Amending Standard for Sustainability and Experts at Agenda Item 8).

Background

The International Ethics Standards Board for Accountants (IESBA) approved a project proposal on Sustainability in December 2022. The IESBA project aimed to develop profession-agnostic ethics and independence standards for all assurance practitioners undertaking sustainability assurance engagements and to address sustainability reporting-related revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the International Code).

Technical staff have provided updates to the APESB Board since the approval of the IESBA project. The latest update was in March 2025 (BM130 – Agenda Item 6 and Agenda Item 8).

In January 2025, the IESBA issued the final pronouncement, *International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting* (the IESSA). Globally, the IESSA will be effective from 15 December 2026, except for sustainability assurance provisions applicable to Value Chain Components (VCC), which will be effective from 1 July 2028. There are transitional provisions for engagements that involve sustainability assurance performed at a VCC for periods beginning prior to 1 July 2028. Early adoption is permitted and encouraged.

In Australia, the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* establishes mandatory climate-related reporting requirements for Australian entities. These reporting and assurance requirements will be phased in over three years based on the size of the reporting entity, beginning with Group 1 entities from 1 January 2025.

In September 2024, the Australian Accounting Standards Board (AASB) issued AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and AASB S2 *Climate-related Disclosures*, which are effective from 1 January 2025 (BM 128 (Dec 24) Agenda Item 8).

In January 2025, the Auditing and Assurance Standards Board (AUASB) issued ASSA 5000 *General Requirements for Sustainability Assurance Engagements* and ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* (BM 130 (March 25) Agenda Item 6).

At the AUASB May 2025 Board meeting, the AUASB considered feedback in response to AUASB ED 01/25 for proposed amendments to ASSA 5000. Based on stakeholder feedback, the AUASB decided to apply the current APES 110 for the time being instead of Parts 1 to 4A of APES 110 and Part 5 of the IESBA Code. The AUASB will consider adopting a revised APES 110 after the APESB issues an Amending Standard from the APESB's proposed effective date of 1 January 2026. Read the AUASB's Board Meeting Highlights.

Therefore, it is imperative for APESB to provide the ethical and independence standards component for the Australian mandatory climate-related reporting and assurance regime.

In the second half of 2024, the APESB Sustainability Taskforce was convened to provide insights on Sustainability reporting and assurance requirements in Australia and to provide input to the development of sustainability-related ethics and independence standards.

The APESB Board approved the release of the Exposure Draft (ED) at the March 2025 Board Meeting (Agenda Item 8). The 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* (AESSA) was released on 25 March 2025. It was open for public comment until 12 May 2025.

Matters for Consideration

On ED 01/25, APESB received seven submissions from the three professional accounting bodies, three accounting firms and the Australian Accounting and Assurance Public Policy Committee (which represents the big six firms in Australia).

The submissions from these seven stakeholders are tabulated in General and Specific Comments Tables at Agenda Item 6 (a) and 6 (b), respectively.

Key matters raised and the Technical Staff responses are summarised below.

General effective date (excluding Value Chain Components)

The majority of the respondents supported or did not oppose the proposed effective date of 1 January 2026 for the AESSA, except for provisions in Sections 5405 and 5406 relating to value chain components (VCC) (SC 25, SC 27, SC 28 and SC 37). APESB's Sustainability Taskforce also supported the commencement date of 1 January 2026.

A concern was raised regarding the short time frame for implementation (SC 26). Technical Staff are of the view that the date has been chosen to align with Australian legislative requirements and provide some time for adoption.

Technical Staff note that the majority of the provisions are closely aligned with the existing obligations in Part 4A used by the financial statement auditor. As specified in the legislation, the new Sustainability Assurance Engagement in Australia needs to be undertaken by the same financial statement auditor who already complies with Part 4A of the Code. Where there are new requirements and obligations, such as VCC and using the work of an external expert, the Technical Staff have proposed a longer implementation period, where possible, for Members to adopt and implement those provisions.

Effective date and transition provisions for Value Chain Components

ED 01/25 proposed an operative date of 1 January 2027 for the application of independence requirements for assurance over VCC under Sections 5405 and 5406, with transitional provisions for periods beginning prior to 1 July 2028.

Technical Staff note that a consistent theme in the feedback from all respondents was a strong concern regarding the proposed effective date for VCCs. Stakeholders observed that setting an earlier date than that in the IESSA could disadvantage Australian practitioners by limiting their ability to benefit from IESBA's forthcoming implementation guidance, and is contrary to international alignment. All respondents requested that the effective date be aligned with the IESBA's international effective date of 1 July 2028 (SC 31 – 40).

One respondent noted that this is the most challenging aspect of the ED, especially the interaction with the independence requirements for group sustainability assurance engagements. Respondents also highlighted that the proposed earlier date could result in unintended consequences and substantial delays, potentially resulting in audit qualifications and unintended breaches of the Code.

Technical Staff acknowledge these concerns. Typically, APESB would align with the dates specified in the international standards. On balance, Technical Staff consider the Australian legislative reporting requirements and the phasing timeline for assurance set out in ASSA 5010 by the AUASB to be important factors to consider. In particular, under the phasing timeline under ASSA 5010, the assurance of Scope 3 emissions is required for Group 1 entities for years commencing 1 July 2026.

Considering stakeholder feedback and discussion with the APESB Sustainability Taskforce, the Technical Staff propose that Sections 5405 and 5406 become effective on 1 July 2028, consistent with the IESSA. In making this change, the Technical Staff recognise potential challenges for some Australian entities that may not be from the listed entity environment while also addressing stakeholder concerns around global consistency and readiness.

Accordingly, the following effective date change is proposed for the Transitional Provisions on VCC:

> The provisions in Sections 5405 and 5406 applicable when assurance work is performed at a Value Chain Component will be effective for Sustainability Assurance Engagements on Sustainability Information for periods beginning on or after ~~1 January 2027~~ 1 July 2028, or as at a specific date on or after ~~1 January 2027~~ 1 July 2028.

Technical Staff do not propose any changes to the following Transitional Provisions on VCC in the ED, which are consistent with the global IESSA Standard, highlighting the requirement for Sustainability Assurance Engagements on Sustainability Information for periods beginning, or as at a specific date, prior to 1 July 2028 that involve assurance work performed at a Value Chain Component:

(a) A Group Sustainability Assurance Firm or Component Practitioner that performs assurance work at a Value Chain Component shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to Independence in relation to such assurance work;

(b) If the Group Sustainability Assurance Firm intends to use the assurance work of Another Practitioner, the Group Sustainability Assurance Firm shall be satisfied that the other practitioner is independent, and in that regard may rely on a statement of Independence in accordance with Part 4B of other professional requirements relating to Independence; and

(c) The Group Sustainability Assurance Firm shall publicly disclose that Independence provisions applicable to assurance work performed at Value Chain Components under the AESSA have now been applied, pursuant to a deferred effective date for such provisions as specified in the AESSA.

Technical Staff note that assurance providers for Group 1 entities would be required to make this disclosure under (c) for year ends commencing 1 July 2026 and 1 July 2027.

Technical Staff are of the view that this proposed approach both responds to stakeholder feedback and aligns with the public interest.

Independence Considerations for Value Chain Components

Most respondents raised concerns over independence considerations for group sustainability assurance engagements, especially when extending the independence requirements to VCC (SC 11 – 14, SC 31 – 40).

Technical Staff acknowledge this complexity and note that guidance materials from the IESBA are expected to be released in June 2025 to facilitate the adoption and implementation of these provisions. Subsequent to the release of this material, Technical Staff will engage with Australian stakeholders to determine the need for further Australian-specific guidance materials.

Technical Staff note the respondents' request to highlight the content in Appendix 3 of the *IESBA's Basis for Conclusions* relating to VCC independence considerations (SC12). As such, Technical Staff propose to include this content in the Basis for Conclusions (refer to **Agenda Item 8 (b)**).

Technical Staff have also performed research on the status of current reporting and assurance engagements relating to Sustainability Information. The research findings are set out below:

- In the EU, limited assurance is already being provided over Scope 3 emissions for some of the large listed companies such as Nestle-Switzerland (Auditor - EY), Unilever-Netherlands (Auditor - KPMG) and TotalEnergies-France (Auditor - EY & PwC).
- In Australia, this is also the case with limited assurance on scope 3 emissions for BHP (Auditor - EY), Rio Tinto (Auditor - KPMG), Qantas (Auditor - KPMG) and Woolworths (Auditor - Deloitte).

In this context, Technical Staff note that many large listed entities are already voluntarily disclosing Scope 3 information and are requesting assurance over these disclosures to demonstrate to the market and investors their ESG credentials (refer to **Agenda Item 6(d)**).

Furthermore, the independence requirements relating to the VCC offer clients, investors, and the public confidence that the assurance provider has adhered to applicable ethical and independence requirements when providing these assurance services.

As noted above, prior to 1 July 2028, the Group Sustainability Assurance Firm must publicly disclose that Independence provisions applicable to assurance work performed at VCC under the AESSA have not been applied, pursuant to a deferred effective date for such provisions as specified in the AESSA. Technical Staff believe that this transparency disclosure requirement adequately addresses the issue of not using the VCC provisions before the effective date of 1 July 2028, given the challenges noted previously.

Definition of "Sustainability Information"

Three respondents highlighted the consistency of definitions as a key concern. Two respondents were concerned that the definition of "Sustainability Information" in the ED 01/25 differs from that in the ASSA 5000 (SC 1 – 3).

The IESBA specifically addressed this matter in paragraphs 30 to 33 of the *IESBA's Basis for Conclusions*, stating that the IESBA and IAASB are fully aligned on the definition of "Sustainability Information" in the IESSA and ISSA 5000, sharing the common core for "Sustainability Information" as "information about sustainability matter". The IESBA and IAASB also agreed to add specific elements to the two terms, if and as necessary, to cater to the needs of their respective standards.

Technical Staff reviewed the definitions of "Sustainability Information" released by the IESBA and the IAASB in their respective standards and made the following observations:

- IAASB have used the common core definition of "Sustainability Information"; however, they have provided additional information on how that term is used or interpreted in the ISSAs for assurance purposes.
- paragraph 2 of ISSA 5000 provides an explanation of sustainability matters that is consistent with the additional information on sustainability matters included in the IESBA definition of "Sustainability Information". In addition, Appendix 1 to ISSA 5000 provides commentary on what sustainability information may encompass, which is similar to the explanation set out in the IESBA definition of "Sustainability Information".
- IESBA have used the common core definition of "Sustainability Information" with the addition of content on what would be considered a sustainability matter. In addition, the IESBA have included an explanation of "Sustainability Information" and its varying forms for reporting and assurance purposes.
- AUASB have adopted the IAASB definition of "Sustainability Information" in ASSA 5000.

Based on the matters considered above and the extensive coordination that has occurred between IESBA and IAASB at the global level in finalising these definitions, Technical Staff are of the view that the descriptions of sustainability information and sustainability matters are generally consistent across the international standards, and that the additional information in the IESBA definition ensures that this consistent position with the IAASB standard is maintained.

Accordingly, Technical Staff do not propose to amend the proposed definition of "Sustainability Information", which is consistent with the IESBA's definition.

Application of Part 5 to Non-Professional Accountants(NPA)

Respondents generally supported applying consistent ethical standards across all sustainability assurance practitioners. However, some respondents expressed concerns if the Code is extended to practitioners who are Non-Professional Accountants (NPAs) (GC 18 – 20). The key reasons for these concerns included:

- that the Code is written for professional accountants (PAs) and its compliance is regulated by the accounting bodies;
- to attain and maintain the same high ethical standards of PAs, NPAs may potentially be required to upskill significantly; and
- in the absence of which entity/entities regulate(s) NPAs and the consequences for non-compliance with the Code, it will erode the public trust and confidence in PAs and NPAs sustainability practitioners.

Technical Staff note the concerns raised and, in establishing the proposed AESSA standard, considered the following matters:

- IESBA intentionally drafted Part 5 to be professionally agnostic to enable broad application at the request of global regulators;
- ASSA 5000 in Australia has also been developed in a professionally agnostic manner;
- The term "Sustainability Assurance Practitioners" is used to provide a distinction between the requirements of a financial statement auditor and a sustainability assurance practitioner; and
- It is the role of the appropriate authorities in each jurisdiction (such as Australia) to determine who is allowed to carry out these Sustainability Assurance Engagements in their respective jurisdiction and, consequently, how these standards are monitored and enforced.

Accordingly, to remain consistent with international practice and ASSA 5000, Technical Staff do not propose to make amendments to address this issue.

Disclosure of fees for PIEs

A concern was raised about proposed paragraph R5410.31 requiring the firm providing the sustainability assurance to publicly disclose information regarding fees for PIEs (if the entity does not make the relevant disclosures). One respondent supported the proposal, while another respondent expressed concerns that such disclosures are typically the responsibility of the entity and are not currently required under the Australian Sustainability Reporting Standards. (SC 15 – 16).

Technical Staff note that where the same firm conducts the financial statement audit and the sustainability assurance engagement, the entity would be required to disclose in its financial statements the fee for the sustainability assurance engagement as part of "all other services" (AASB 1054, para. 10(b)).

Technical Staff have considered the position taken by the IESBA and existing fee disclosures by other entities in Australia, as set out below:

- the requirements in proposed paragraph R5410.31 mirror paragraph R410.31 applicable to financial statement audits, which require disclosure by the auditor if the entity (audit client) does not make the disclosure.

- the IESBA have provided its rationale in the *IESBA's Basis for Conclusions* (paragraphs 144 to147) for maintaining the consistent disclosure by noting there is the same '…interest in stakeholders receiving the same information about a sustainability assurance practitioner's independence as in the case of the audit of the financial statements.'
- in Australia, research undertaken by Technical Staff found that some Australian entities (e.g., BHP, Rio Tinto and CBA) have disclosed that the costs of sustainability assurance engagements are included in the fees for other assurance services provided by the external auditor.

Based on the above considerations, Technical Staff believe that the requirement to disclose the sustainability assurance fee is not unduly burdensome and contributes to transparency. Importantly, this is a global requirement, and this information is deemed relevant for stakeholders when assessing the independence of an auditor or a sustainability assurance practitioner. The APESB Technical Staff have also informed the AASB about this disclosure requirement.

Accordingly, Technical Staff do not propose any amendment to the proposed disclosure requirement in paragraph R5410.31.

Long association and assurance practitioner rotation requirements

Three respondents expressed concern about the long association and assurance practitioner rotation requirements. Those respondents noted that the long association independence provisions set out in proposed Part 5 are consistent with the long association independence requirements of Part 4A; however, these respondents commented that the additional requirements will increase complexity.

The respondents requested guidance material be developed to help raise awareness of some aspects of the provisions, for example, to clarify the interaction of activities such as voluntary audits of climate statements undertaken by such practitioners prior to the proposed effective date of 1 January 2026 and the time-on period for such engagements (SC 18 – 20).

Technical Staff note the respondents' request for guidance material and will consider undertaking a project to update the Staff Guidance publication on Long Association.

Non-Assurance Services (NAS)

The respondents expressed support for the overall approach taken regarding NAS, particularly the alignment of proposed Section 5600 with Section 600 of APES 110, with which stakeholders are already familiar.

Nevertheless, a concern was raised regarding the implications of the proposed tailored NAS provisions for sustainability assurance clients, specifically in Subsection 5601 and Subsection 5603. The respondent queried whether the historical provision of these services, particularly services akin to management responsibilities, such as the development of sustainability reporting policies, could create threats to independence that affect the firm's ability to undertake either sustainability or financial assurance engagements in future periods (SC 23).

In response to the concerns, Technical Staff note that the proposed paragraph R5600.17 prohibits firms from providing NAS that would give rise to a self-review threat that cannot be reduced to an acceptable level. This includes management responsibilities such as determining sustainability reporting policies, as addressed in proposed paragraph 5400.20 and explanatory material 5601.2 A1. While these services may have been permitted in the past for financial assurance clients, their continued provision will not be permissible where such engagements create a self-review threat in relation to future sustainability assurance services.

Application of Part 4B for Sustainability Assurance Engagements and NAS in 2025

As the extant APES 110 will be effective for Sustainability Assurance Engagements in 2025, Technical Staff note that the current provisions of Part 4B of the Code applicable to Assurance Engagements that are not Audit or Review Engagements, set out specific requirements for firms when providing NAS, including the following relevant considerations:

(a) a core principle of Part 4B is the prohibition on assuming management responsibilities related to the Underlying Subject Matter and, in an Assurance Engagement, the Subject Matter Information of an Assurance Engagement provided by the Firm (paras R900.13–900.14A1). These paragraphs make it clear that firms must not assume a management role in these circumstances, as doing so creates a self-review, self-interest and familiarity threat;

(b) when providing any NAS to an Assurance Client, firms must apply the conceptual framework to identify, evaluate and address any threats to independence (para R950.7). If threats cannot be reduced to an acceptable level using safeguards, then the NAS must not be undertaken;

(c) Self-review threats may be created for an Assurance Engagement if the Firm is involved in the preparation of Subject Matter Information, which subsequently becomes the Subject Matter Information of an Assurance Engagement (para 950.11 A1);

(d) the Code also recognises that threats may also be created by the combined effect of providing multiple NAS to the same assurance client (para 950.10 A1); and

(e) Part 4B explicitly states that safeguards may not be available to reduce threats to an acceptable level in certain cases (para 950.13 A4). In such circumstances, the firm is required to adjust the scope of the proposed service, decline or end the NAS, or, if necessary, end the assurance engagement.

To support the transition to the new requirements, ED 01/25 included a transitional provision for NAS engagements that commenced prior to 1 January 2026. In line with the IESBA's approach, this provision allows a Firm or Network Firm to continue delivering such services for one reporting cycle in accordance with the original terms of engagement, where the engagement has already commenced. This approach provides firms sufficient time to conclude, or transition out of, existing NAS engagements that would no longer be permitted under the revised requirements.

The same respondent also sought clarification on whether this one reporting cycle grace period would also apply to Group 2 and Group 3 entities under ASSA 5010 (SC 23).

Technical Staff have considered this matter and noted that the transitional provision in the Code does not distinguish between different phases of assurance in accordance with ASSA 5010. However, because the Code becomes effective on 1 January 2026, and the mandatory assurance requirements for Group 2 and 3 entities will apply at a later date, in practice, these entities are unlikely to benefit from the transitional relief.

Further, this outcome is consistent with the rationale provided by the IESBA in paragraph 138 of *the IESBA's Basis for Conclusions*, which limits the duration of transitional relief to a single reporting cycle to minimise the risk of misuse.

Technical Staff also note that while the transitional provision provides temporary relief, it does not remove the obligation on firms to evaluate any self-review threats created by prior NAS engagements. Firms are expected to assess whether past services could give rise to such threats and determine how they can be addressed or mitigated to reduce the threat to an acceptable level (extant paragraphs R600.9, R600.15 and R950.7, 950.13 A4, and proposed paragraphs R5600.9, R5600.13 and R5600.15)

Technical Staff do not propose further amendments to the proposed transitional provisions.

Other Matters Raised by Respondents

Close collaboration with other standard setters

A number of respondents encouraged regular collaboration between APESB, AUASB and ASIC to support consistent interpretation and application of the standards. Technical Staff note that engagement with the AUASB and ASIC is an ongoing process.

Throughout the due process of its exposure drafts, APESB Technical Staff have engaged with the AUASB to ensure alignment between ASSA 5000 and proposed AESSA, including consistency in the application of transitional provisions across both pronouncements. This engagement included the AUASB Chair and CEO, Mr Doug Niven, who provided updates on ASSA 5000 and ASSA 5010 at the APESB March 2025 meeting (BM 130 - Agenda Item 6).

In APESB's submission to AUASB's Exposure Draft for ASSA 5000 (page 4), APESB supported ongoing collaboration and participation with the AUASB in coordinated communications and stakeholder engagement activities concerning sustainability assurance engagements.

Development of guidance materials

Technical Staff noted the respondents' request that APESB develop additional guidance in particular areas, such as the application of the VCC provisions, non-assurance services, long association requirements and transitional arrangements.

The IESBA Technical Staff are also working on this matter as part of the IESBA's Adoption & Implementation (A&I) Working Group on A&I materials for sustainability-related standards, which are expected to be released in June 2025. After the IESBA releases its guidance materials, APESB will consider whether further Australian-specific guidance materials are necessary.

Proposed combined Amending Standard and Basis for Conclusions

Technical Staff have prepared a combined *Amending Standard for Sustainability Assurance (AESSA and Expert)* and the related Basis for Conclusions, which are considered at Agenda Items 8 (a) and 8 (b) of this Board meeting.

Recommendation

The Board note the submissions received on ED 01/25 and, subject to the Board's review comments, approve the AESSA Standard (refer to the proposed combined Amending Standard for Sustainability and Experts at Agenda Item 8).

Materials presented

Agenda Item 6 (a)	General Comments Table ED 01/25
Agenda Item 6 (b)	Special Comments Table ED 01/25
Agenda Item 6 (c)	Summary of Sustainability Reporting, Assurance and Ethics Requirements in Australia
Agenda Item 6 (d)	Desktop Review – Information on Scope 3 and Value Chain Emissions Disclosures in Australian and European Entities

Authors: Jacinta Hanrahan
Ann Chang

Date: 4 June 2025