Project proposal – Conformity with Sustainability Reporting Standards

Introduction

The release of the sustainability-related Amending Standard to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) has set out new ethical and independence requirements for sustainability reporting and assurance in Australia.

These new standards provide clear and robust ethical principles and guidance for professional accountants engaged in sustainability reporting and assurance in Australia, including using the work of external experts. They support Australia's mandatory climate-related financial disclosures and sustainability reporting and assurance, which became effective for Group 1 entities from 1 January 2025.

Professional accountants will need to increase their awareness and education on how to competently perform professional activities to ensure the reliability and trustworthiness of sustainability information, as well as potential risks and threats arising from ESG reporting and assurance activities.

This project aims to develop a professional and ethical standard to address a Member's professional obligations associated with reporting sustainability information under the new suite of Australian Sustainability Reporting Standards.

Background

The APESB first issued APES 205 *Conformity with Accounting Standards* (APES 205) in December 2007. Following its initial release by APESB, it was revised in October 2015, December 2019, and October 2022.

APES 205 specifies the professional obligations of all Members to comply with Accounting Standards when they prepare, present, audit, review or compile financial statements, which are either general purpose financial statements or special purpose financial statements. APES 205 also requires Members to take reasonable steps to ensure that reporting entities prepare general purpose financial statements.

In September 2024, the Australian Accounting Standards Board (AASB) issued a new suite of Australian Sustainability Reporting Standards, which impact Members engaged in sustainability reporting in Australia. They comprise AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (voluntary) and AASB S2 *Climate-related Disclosures* (mandatory), both effective from 1 January 2025.

Under Chapter 2M of the *Corporations Act 2001*, the mandatory climate-related reporting requirements for Australian entities will be phased in over a period of three years based on size, beginning with the largest entities, asset owners and NGER reporters[1] as set out below:

- Group 1 entities – the first financial year commencing on or after 1 January 2025;
- Group 2 entities – the first financial year commencing on or after 1 July 2026; and
- Group 3 entities – the first financial year commencing on or after 1 July 2027.

The ASIC website outlines the entities that may fall within the scope of the climate-related financial reporting mandate. These include certain entities that prepare a financial report under Chapter 2M and meet the relevant criteria outlined under section 292A of the *Corporations Act 2001*:

- the corporate size threshold – the entity (and the entity it controls if any) meets two of the three thresholds for consolidated revenue, value of consolidated gross assets or the number of employees: see s292A(3) of the *Corporations Act 2001*;
- the emissions threshold – the entity is a registered corporation that has emissions reporting obligations under the National Greenhouse and Energy Reporting Act 2007: see s292A(5) of the *Corporations Act 2001*; and
- the value of assets threshold – the entity is a registered scheme, registrable superannuation entity or retail CCIV, and it (and the entities it controls, if any) meets the criteria for the value of assets under s292A(6) *Corporations Act 2001*.

Technical Staff note that AASB S1 and AASB S2 are not currently addressed by APES 205, which focuses on Members' compliance with the Accounting Standards.

Therefore, Technical Staff considered a need to develop a new professional and ethical standard to address the professional obligations associated with reporting sustainability information under the new suite of Sustainability Reporting Standards.

Key Considerations

In undertaking this project, APESB will need to consider:

1) Existing requirements and guidance

   An analysis will be needed to consider the scope and extent of the requirements and application materials to be developed, addressing the professional and ethical obligations in sustainability reporting outlined in the proposed new standard.

   APESB will also need to consider whether the proposed new standard is impacted by or consistent with other guidance issued by professional bodies, the AASB, the IESBA, other standard setters, and relevant laws and regulations

[1] NGER reporters subject to the *National Greenhouse and Energy Reporting Act 2007* (NGER Act), who are registered corporations and prepare and lodge financial reports under Chapter 2M.

2) Ethical Challenges faced by Members in Sustainability Reporting

APESB will need to gather information on ethical challenges faced by Members by:

- Conducting desktop research to determine whether any similar ethical guidance in other jurisdictions or professions is available for Members relating to reporting sustainability information.
- Undertaking engagement or consultation with a broad range of stakeholders, including APESB's Sustainability Taskforce, AASB, AUASB, professional bodies and firms, to identify potential ethical challenges faced by Members and where additional practical guidance may be required.

3) Consistency of material in APESB pronouncements

APESB will need to ensure that any amendments or guidance developed as a result of this project are consistently referred to across the full suite of APESB pronouncements, where relevant.

4) Timeliness of project outcomes

With mandatory climate-related reporting requirements for Group 1 entities commencing on 1 January 2025, APESB may need to consider the current need for guidance for Members, prompting consideration of the project outcomes within a short-term timeframe.

Proposed Project Plan

Appendix A presents the proposed project plan for Conformity with Sustainability Reporting Standards. It lists the key project activities, proposed timelines, project risk assessment and resource requirements.

Other Matters to Consider

Impact on accounting, auditing, or other relevant standards

In addition to this project proposal, the Technical Staff also considered the need to assess the impact and associated risks of sustainability reporting and assurance on Members' various professional activities and their impact on the APESB pronouncements.

The proposed revised APESB pronouncements for Code Conforming Amendments are set out at Agenda Item 7 (for APES 200 and APES GN 20 Series) and Agenda Item 8 (for APES 300 and APES GN 30 Series) of this Board meeting.

Related legislative developments

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.

The Technical Staff will closely monitor legislative developments in sustainability reporting and consider any potential impact on APESB pronouncements, as applicable.

Related international developments

In January 2025, the International Ethics Standards Board (IESBA) issued final pronouncements on Sustainability: the International Ethics Standards for Sustainability Assurance (IESSA) and Using the Work of an External Expert. The pronouncements will be effective globally from 15 December 2026, except for sustainability assurance provisions applicable to value chain components, which will take effect on 1 July 2028.

Technical Staff note that the IESBA's Adoption & Implementation (A&I) Working Group are working on developing A&I materials for sustainability-related standards. Technical Staff will review the released guidance materials to identify any potential ethical challenges faced by Members that need to be addressed in this proposed project.

Benefits of this project

This project will assist Members in their understanding and application of APESB pronouncements when facing ethical issues relating to reporting sustainability information.

Appendix A

Project Plan on Conformity with Sustainability Reporting Standards	
Objective	Development of a new professional and ethical standard to address the professional obligations associated with reporting sustainability information under the new suite of Australian Sustainability Reporting Standards.
Activities (in phases)	The activities for this project have been grouped into four phases, with the final 2 phases dependent on the outcome of the first 2 phases. **Phase 1: Information-gathering and stakeholder engagement** This stage of the project will focus on: • Conduct desktop research to determine whether any similar ethical guidance in other jurisdictions or professions is available for Members relating to reporting sustainability information. • Review the applicability of APESB pronouncements to sustainability reporting, including potential alignment with APES 110. • Undertake engagement or consult with a broad range of stakeholders, including APESB's Sustainability Taskforce, AASB, AUASB, Professional Accounting Bodies and firms, to identify potential ethical challenges faced by Members and where additional practical guidance may be required. Timing: October – December 2025 **Phase 2: Board's decision on development of a new Standard** Once the initial desktop review and stakeholder engagement process are complete, the Technical Staff will make a recommendation to the Board at the December 2025 Board Meeting on the proposed approach to developing a new Standard on Conformity with Sustainability Reporting Standards. Timing: December 2025 **Phase 3: Develop and issue Exposure Draft (dependent on outcome of phase 2)** At this stage, subject to the Board's decision on phase 2, Technical Staff will: • Develop and issue an Exposure Draft that addresses matters identified during the project; and • Conduct consultation with stakeholders, especially APESB Sustainability Taskforce, AASB, Professional Accounting Bodies and firms. Timing: January – March 2026

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	Phase 4: Issue new Standard Key steps at this stage include: • Analyse submissions received on the Exposure Drafts. • Prepare final pronouncement for Board approval. Timing: April - June 2026
Project Risk Assessment **(key risks)**	**Risks** **Risk 1** Project outcomes are not acceptable to Members, Professional Bodies and other stakeholders. *Assessment:* • Probability: Low to medium • Impact: Low to medium • Risk rating: Medium *Mitigating Controls:* • Proactively consult with stakeholders through the project, especially the APESB Sustainability Taskforce, AASB, AUASB, Professional Accounting Bodies and firms. • Carefully assess any proposed changes to APESB pronouncements, including the practical implications of the changes. **Risk 2** The project's scope is too broad. *Assessment:* • Probability: Low to medium • Impact: Low to medium • Risk rating: Medium *Mitigating Controls:* • Staff to undertake project work to ensure it is informing the project objective of professional obligations of all Members to comply with the new suite of Australian Sustainability Reporting Standards issued by AASB, or specific guidance in APESB pronouncements. • Staff to monitor Australian and international developments with respect to sustainability reporting and assurance as they impact the accounting profession. • The board will be monitoring the progress of the project through regular project updates. **Risk 3** Members may not be aware of the proposed new standard. *Assessment:* • Probability: Medium

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	• Impact: Medium • Risk rating: Medium *Mitigating Controls:* • APESB to work with the Professional Accounting Bodies and other stakeholders in promoting the proposed new standard on Conformity with Sustainability Reporting Standards.
Resource Requirements	• The estimated time spent by the Technical Staff on this project will be approximately three to four months. • Costs may be required for stakeholder engagement, which will either be in the form of teleconferencing facilities or travel for APESB Staff (as needed). At this stage, it is expected that the existing allocation can cover the costs for taskforces, events and thought leadership activities in APESB's budget. • Other sundry costs include travelling, meeting costs, printing and stationery.