Meeting: IESBA
Meeting Location: Abu Dhabi, UAE
Meeting Date: March 13-17, 2023

Agenda Item 3

Sustainability

Objectives of Agenda Item
1. To consider:
   (a) An update on the latest research undertaken by IFAC on the landscape for sustainability reporting and assurance, as well as information gathered through related research undertaken by the Sustainability Work Streams 1 and 2;
   (b) An update from the International Auditing and Assurance Standards Board (IAASB) on its sustainability project;
   (c) Preliminary common issues identified by Work Stream 1 (Independence) and Work Stream 2 (Ethics); and
   (d) Specific topics or issues identified by Work Stream 1 and Work Stream 2.

Task Force Composition
2. The Task Force comprises of two work streams:

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<thead>
<tr>
<th>Work Stream 1 (Independence)</th>
<th>Work Stream 2 (Ethics)</th>
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<tr>
<td>Mark Babington, Chair, IESBA Member</td>
<td>Christelle Martin, Chair, IESBA Member</td>
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<tr>
<td>Jens Poll, IESBA Member</td>
<td>Vania Borgerth, IESBA Member</td>
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<td>Channa Wijesinghe, IESBA Member</td>
<td>Richard Huesken, IESBA Member</td>
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<td>Sung-Nam Kim, IESBA Member</td>
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Supported by:
- David Clark, IESBA Technical Advisor
- Marta Kramerius, IESBA Technical Advisor
- Masahiro Yamada, IESBA Technical Advisor
- Laura Friedrich, IESBA Technical Advisor
- Chris Twagirimana, IESBA Technical Advisor
- Kristen Wydell, IESBA Technical Advisor

Activities Since the Last IESBA Discussion
3. After the November-December 2022 IESBA meeting, the Task Force met in person and via video conference to prepare the agenda materials for this meeting. The in-person meeting included joint
sessions during which the Work Streams discussed, among other matters, the approach to the global roundtables and options for the presentation of the profession-agnostic standards for sustainability assurance.

4. IESBA Staff continues to coordinate closely with IAASB Staff, especially on proposed definitions, considering that the terms and concepts used by both Boards should be aligned to the furthest extent possible.

5. IESBA and IAASB representatives also:
   - Attended in mid-December 2022 the 2nd International Organization of Securities Commissions’ (IOSCO) Sustainable Finance Taskforce (STF) roundtable on assurance of sustainability-related financial disclosures.
   - Met with representatives of the IOSCO STF to provide updates on the two Boards’ sustainability workstreams as well as input to IOSCO’s draft *Report on International Work to Develop Assurance and Ethics Standards over Sustainability-related Corporate Reporting*, expected to be issued in March 2023.

6. IESBA representatives also met with representatives from the International Organization for Standardization (ISO) and the Institute of Electrical and Electronics Engineers (IEEE) in Q1 2023 to explore avenues for cooperation and collaboration. The Board will be briefed on the main outcomes of those meetings at the Board meeting.

Presentations

7. David Madon, IFAC Director for Sustainability, Policy & Regulatory Affairs, will provide a briefing on IFAC’s updated “State of Play” research regarding sustainability assurance practices across the globe. IFAC has expanded its research to the entire State of Play 2021 data set which also includes fact finding on the application of quality management standards. This expanded research also includes a deeper dive into what type of consultancy organizations are performing engagements using various assurance standards.

8. IAASB Staff will provide the latest update on the IAASB’s sustainability project.

Common Issues

*Presentation of Profession-Agnostic Standards for Sustainability Assurance*

9. In September 2022, the IESBA considered some possible ways to present the new ethics and independence standards for sustainability assurance engagements. Informed by the Board’s subsequent discussions in November and December 2022, the Task Force has narrowed the possibilities to a few options.

10. An important consideration for the Board would be to ensure that the new standards meet the qualitative criteria set out in the *Public Interest Framework* as a basis for the Board to assess the standards’ responsiveness to the public interest. These criteria include that the standards are comprehensive, scalable, clear, concise, implementable, globally operable and enforceable for all sustainability assurance providers, with special regard to those who are not professional accountants.

11. During the upcoming global sustainability roundtables, the Task Force will seek participants’ input regarding the options for presenting the profession-agnostic standards and the pros and cons of each
option. The feedback from the roundtables will assist the Board in determining the approach to take regarding the presentation of the profession-agnostic standards for sustainability assurance.

12. **Agenda Item 3-A** (slide presentation) includes the proposed options to be presented to the roundtable participants.

**Update on Global Sustainability Roundtables**

13. In addition to the four in-person global roundtables, the Task Force is recommending that the Board hold two additional ones virtually to cover participants who would not be able to travel to any of the roundtables, especially those from Africa and Latin America. These virtual roundtables are planned for around mid-April 2023, with the dates to be confirmed.

14. Under **Agenda Item 3-A**, IESBA members will be asked to consider an update on the preparations for the global roundtables, including the key questions for discussion. The briefing paper for these roundtables is included as **Supplement 3-1 to Agenda Item 3-A**.

**Use of Reference Group**

15. The Task Force considered whether it would be beneficial in using a reference group that involves sustainability assurance providers to further inform the development of the new standards. The involvement of assurance providers, especially those who are not professional accountants, will help to ensure that the IESBA’s proposals are operable in a profession-agnostic way as well as to promote the adoption of the new standards by all sustainability assurance providers.

16. For information, the IAASB has established two reference groups (one with practitioners from the accountancy profession and the other with other assurance practitioners outside the accountancy profession) to provide input to its Sustainability Task Force.

17. Under **Agenda Item 3-A**, IESBA members will be asked to consider potential ways to establish such a reference group, identify individuals who could join as members, and how it might operate effectively.

**Research into Sustainability Reporting and Assurance**

18. Work Stream 1 and Work Stream 2 members researched the current landscape of sustainability reporting and assurance, focusing on specific jurisdictions and regions.

19. This additional research also informed the Task Force’s discussion and the development of the proposals for the IESBA’s consideration at the March 2023 meeting. **Supplement 3-2 to Agenda Item 3-A** provides an overview of the outcome of the research with respect to sustainability assurance for the Board’s information.

**Issues – Work Stream 1**

**Key Definitions and Terminology**

20. Definitions is one of the key areas where the IESBA has been closely coordinating with the IAASB given the importance of common definitions for common terms used in both Boards’ standards to facilitate interoperability.
21. IESBA members will be asked to consider Work Stream 1’s proposals in Agenda Item 3-B regarding the following three key definitions: (i) sustainability assurance engagements, (ii) sustainability assurance team, and (iii) sustainability assurance client.

22. The Task Force recognizes that some terminologies in the International Independence Standards are specific to accounting firms and audits of financial statements. The Task Force will seek input from roundtable participants to better understand whether this terminology and principles are fit-for-purpose for profession-agnostic ethics and independence standards for all sustainability assurance providers and the potential alternatives.

**Independence Considerations**

23. The IESBA has determined that certain sustainability assurance engagements must be underpinned by the same high standards of ethical behavior and independence that apply to audits of financial information. In other words, for those sustainability assurance engagements, the new independence standards need to be equivalent to Part 4A of the Code.

24. Work Stream 1 considered whether the categories of threats to the fundamental principles (in paragraph 120.6 A3 of the Code) could also be applied to sustainability assurance engagements performed by sustainability assurance providers who are not professional accountants. Work Stream 1 also carried out an analysis to determine whether the threats to the fundamental principles and independence in Part 4A can also be applied to equivalent scenarios in the context of sustainability assurance.

25. IESBA members will be asked to consider WS1’s proposals in Agenda Item 3-B and provide feedback regarding the proposed approach to independence considerations applicable to sustainability assurance engagements.

**Issues – Work Stream 2**

*Approach to Key Definitions*

26. IESBA members will be asked to consider a presentation regarding three key definitions that Work Stream 2 has been working on: (i) sustainability information, (ii) sustainability assurance practitioner, and (iii) professional activity (see Agenda Item 3-C).

27. Amongst other matters, IESBA members will be asked to share their views particularly on Work Stream 2’s initial working draft definition of “sustainability information.” As the working draft is substantially different from the current IAASB proposal, IESBA and IAASB Staff will continue to coordinate this matter closely, taking into the two Boards’ deliberations at their respective March 2023 meetings.

*Profession-Agnostic Ethics Standards for Sustainability Reporting*

28. The project proposal approved by the IESBA in December 2022 explicitly provides for the development of profession-agnostic ethics and independence standards for sustainability assurance in response to regulatory calls, especially from IOSCO in September 2022.

29. However, at the moment there is no such regulatory call for sustainability reporting. As such, the approved *project proposal* states that “it will be necessary to consider […] whether, and if so, how to address situations when the preparation of sustainability information is carried out by non-PAs.”
30. IESBA members will therefore be asked to consider the arguments set out in Agenda Item 3-D regarding the development by the IESBA of ethics standards for sustainability reporting in a profession-agnostic way or for professional accountants only, and to share their views on Work Stream 2’s proposal.

31. As this is one of the matters that roundtable participants will be specifically asked to share their views on, the IESBA is asked to defer a final decision until after it has considered the feedback from the roundtables.

Action Requested

32. IESBA members are asked to:

(a) Consider the presentations from IFAC and IAASB Staff; and

(b) Discuss the matters for consideration under the sessions for the common issues, Work Stream 1, and Work Stream 2.

Material Presented

Agenda Item 3-A  Slide Presentation: Common Issues
Agenda Item 3-B  WS1 Slide Presentation
Agenda Item 3-C  WS2 Slide Presentation: Approach to Key Definitions
Agenda Item 3-D  WS2 Issues Paper: Ethics Standards for Sustainability Reporting – Profession-Agnostic vs Professional Accountants Only
Supplement 3-1 to Agenda Item 3-A  Briefing Paper for the Roundtables
Supplement 3-2 to Agenda Item 3-A  Slide Presentation: Overview of sustainability assurance landscape research