Sustainability

Common Issues

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Christelle Martin, IESBA Member and Workstream 2 Chair

IESBA Meeting
March 13, 2023
To consider:

- Brief update on outreach
- An update on IESBA’s global sustainability roundtables
- Presentation of new profession-agnostic standards for sustainability assurance
- Establishment of an IESBA reference group
- Next steps
Meeting with ISO

Meeting with IEEE
Update on Global Roundtables
## Update on Global Roundtables

### In-person Roundtables:

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
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<tbody>
<tr>
<td>March 24 (Friday)</td>
<td>Paris, France</td>
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<tr>
<td>March 30 (Thursday)</td>
<td>Sydney, Australia</td>
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<tr>
<td>April 3 (Monday)</td>
<td>Singapore</td>
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<tr>
<td>April 6 (Thursday)</td>
<td>New York, USA</td>
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### Virtual Roundtables:

<table>
<thead>
<tr>
<th>Date (TBC)</th>
<th>Time zone</th>
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<tbody>
<tr>
<td>April 12/13</td>
<td>Morning CET</td>
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<tr>
<td>April 12/13</td>
<td>Morning ET</td>
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Update on Global Roundtables

Format and length:

**In-person RTs**

Full-day event from 10 am to ~4:15 pm, including:
- Keynote speakers
- Breakout session – ethics and independence standards for sustainability reporting and assurance & use of experts
- Report-backs for breakout sessions
- IAASB sustainability project update

**Virtual RTs**

3-hour event, including:
- Breakout session – ethics and independence standards for sustainability reporting and assurance
- Brief report-back
Update on Global Roundtables

Targeted participants:

• Investors and TCWG
• Regulators and standard-setters
• Assurance service providers
  • From the accountancy profession
  • From other professions
• Preparers
• Financial sector organizations
• Academia
IESBA is looking for participants’ input on strategic issues:

• Presentation of profession-agnostic ethics and independence standards for sustainability assurance

• Potential development of profession-agnostic ethics standards for sustainability reporting

• Ethics and independence issues concerning sustainability reporting and assurance
Any Questions or Comments?
Presentation of New Standards
IESBA committed to developing ethics and independence standards for sustainability assurance engagements irrespective of:

- Whether the engagements are carried out by a professional accountant (PA) or other sustainability assurance provider (profession-agnostic)
- The reporting and assurance frameworks used to prepare and assure sustainability information (framework-neutral)

Recognizing the heightened public interest in specific sustainability information, sustainability assurance engagements must be underpinned by the same high standards that apply to audits of financial information

- Developing independence provisions equivalent to Part 4A of the Code, with applicable ethics provisions from other Parts of the Code
Presentation of New Standards

• In September 2022, IESBA discussed possible ways to present new, profession-agnostic ethics and independence standards for sustainability assurance
  – Integrated vs. standalone approach

• Essential that the new standards meet the requirements of Public Interest Framework with respect to all sustainability assurance providers
  – Comprehensive │ Scalable │ Clear │ Implementable │ Globally Operable and Enforceable

• Roundtables participants to discuss the pros and cons and provide input to 3 possible options (see next slides)

• Two essential premises underlying all options
  a. Use of terms that are relevant to both PAs and other sustainability assurance providers
  b. Equivalence of ethics and independence provisions for sustainability assurance providers and for PAs performing audits of financial statements
    o The same requirements cannot be articulated differently for PAs and non-PA
* Based on the Code’s building blocks approach, when a sustainability assurance provider is performing assurance pursuant to the provider’s relationship with its organization, the provider needs to comply with the provisions in Part 2 that apply to that circumstances (see paragraph R300.5)
### Integrated Approach – Option 1

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages/ Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• One, single set of standards for PAs and other sustainability assurance providers</td>
<td>• Further complexity to already complex independence standards for audits</td>
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<tr>
<td>─ Avoids having to implement two separate, but almost identical Codes</td>
<td>• May result in an architecture that would not be scalable if IESBA needs to</td>
</tr>
<tr>
<td>─ From a perception point of view, it better demonstrates that same ethics and independence standards should apply to</td>
<td>address new types of assurance engagements of same heightened public interest as</td>
</tr>
<tr>
<td>audits of financial statements and sustainability assurance engagements</td>
<td>audits</td>
</tr>
<tr>
<td></td>
<td>• Changes to extant independence standards for audits could give rise to potential</td>
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<td></td>
<td>unintended consequences</td>
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<tr>
<td></td>
<td>• Could be perceived as being developed first and foremost for PAs only</td>
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Decision Tree – Sustainability Assurance
Application of the Code under New Part 5 (“Integrated Approach 2”)

Option i)

**Ethics** - Part 5A applies *only* to non-PAs providing sustainability assurance services; Parts 1 & 3 (updated) continue to apply to PAs.

**Independence** – Part 5B applies to both PAs and non-PAs as well as their firms – with the exception of PAs who are also the auditor

* Parts 1 to 4A of the Code need to be updated to include sustainability-related considerations applicable to PAs providing sustainability assurance

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<table>
<thead>
<tr>
<th></th>
<th>Ethics Standards</th>
<th>Independence Standards</th>
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<tbody>
<tr>
<td><strong>Non-PAs</strong></td>
<td>Part 5A</td>
<td>Part 5B</td>
</tr>
<tr>
<td><strong>PAs who are not also the auditor</strong></td>
<td>Updated Parts 1 &amp; 3 *</td>
<td>Part 5B</td>
</tr>
<tr>
<td><strong>PAs who are also the auditor</strong></td>
<td>Updated Parts 1 &amp; 3 *</td>
<td>Updated Part 4A *</td>
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</tbody>
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**Option ii)**

**Ethics** - Part 5A applies to *all* practitioners providing sustainability assurance services (PAs and non-PAs).

**Independence** – Part 5B applies to both PAs and non-PAs as well as their firms – with the exception of PAs who are also the auditor

*Parts 1 to 4A of the Code need to be updated to include sustainability-related considerations applicable to auditors providing sustainability assurance.*

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### Integrated Approach – Option 2

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</table>
| • Having a separate Part applicable to all providers could better convey IESBA’s intent to address the ethics and independence considerations for all sustainability assurance providers equally  
  ─ Facilitate easier understanding of standards and promote their wider adoption                      | • Increased length of the Code given duplicated material  
• Greater flexibility to cater for other types of assurance engagements in the future               | • For auditors, some potential complexity in navigating standards in two different locations |
International Code of Ethics for Professional Accountants (including International Independence Standards)

International Code of Ethics and Independence Standards for Sustainability Assurance Engagements

Standalone Approach
## Standalone Approach

<table>
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<th>Advantages</th>
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<tbody>
<tr>
<td>• Separate set of standards developed and available for all sustainability assurance practitioners</td>
<td>• Potentially long lead-time for adoption in jurisdictions where legal backing is required for ethics and independence that sit outside the Code</td>
</tr>
<tr>
<td>• Facilitate easier understanding of standards and promote their wider adoption</td>
<td>• Replicate Parts 1, 3 and 4A of the extant Code</td>
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<tr>
<td></td>
<td>• For auditors, some potential complexity in navigating standards in two different locations</td>
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Any Questions or Comments?
Reference Group
• WS1 and WS2 considered involvement of a reference group with sustainability assurance providers who are not PAs
  – Provide input to drafting (for example, to factors and safeguards)
  – Comment on draft proposed revisions with respect to their applicability
  – Enhance credibility of the new standards and help their wider adoption

• Potential ways for establishing a Reference Group:
  1. Coordinate with experts from the IAASB’s recently established reference groups of PAs and non-PAs, and/or
  2. Announce a call for interest at Roundtables and develop an IESBA experts list, and/or
  3. Approach sustainability assurance providers after Roundtables and invite them to join
IESBA members are asked for their input regarding the benefits of a reference group including/consisting non-PA experts and the way forward.

IESBA members are asked for views on whether the reference group should include both PAs and non-PAs, or should consist of non-PA experts only?
Next Steps

- **March/April 2023**
  Global Roundtables

- **April/ May 2023**
  Coordination with global sustainability standard setters (IAASB, ISO, etc.)

- **June 2023**
  Meeting with National Standards Setters

- **December 2023**
  Draft Proposed Changes for Second Read
  Approval of Exposure Draft

- **September 2023**
  Draft Proposed Changes for IESBA's and CAG's First Read

- **June 2023**
  Report-back from Roundtables
  Consideration of Preliminary Proposed Changes