Sustainability
Independence Considerations

Workstream 1 Update

Mark Babington, IESBA Member and Workstream Chair

IESBA CAG Meeting
6 March 2023
Consider and provide input regarding:

- The scope and proposed options for presenting new ethics and independence standards for sustainability assurance engagements

- Independence considerations applicable to sustainability assurance engagements

- Next Steps
Recap of IESBA’s Decisions

- 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
Scope of Standard for Sustainability Assurance

• Sustainability assurance engagements cover a wide range of assurance engagements
  – Is it necessary that sustainability assurance providers apply the more stringent provisions equivalent to Part 4A to all sustainability assurance engagements?

• WS1 proposes that new ethics and independence standards apply to sustainability assurance engagements of heightened public interest, where:

  a. The assurance is provided on sustainability information reported in accordance with a general-purpose reporting framework; and

  b. The sustainability information is widely available to the public and other stakeholders, or the information is specifically used for decision-making
Presentation of New Standards

• In September 2022, IESBA discussed possible ways to present new, profession-agnostic ethics and independence standards for sustainability assurance
  – Revisions integrated within the Code (integrated approach) vs. Separate code for sustainability assurance engagements (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
    ○ The same requirements cannot be articulated differently for PAs and non-PAs
Integrated Approach

Option 1

Provisions Relevant to Audit, Review, Assurance and Sustainability Assurance Engagements

PART 1
All Professional Accountants and Sustainability Assurance Providers

PART 2*
Professional Accountants in Business

PART 3
All Professional Accountants in Public Practice and Sustainability Assurance Providers

PART 4A & 4B
International Independence Standards

Part 4A – Audit, Review and Sustainability Assurance Engagements
Part 4B – Other Assurance Engagements

* 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)

Glossary
## Integrated Approach – Option 1

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<tr>
<th>Advantages</th>
<th>Disadvantages/ Risks</th>
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<tr>
<td>• One, single set of standards for PAs and other sustainability assurance providers</td>
<td>• Could be perceived as being developed first and foremost for PAs only</td>
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<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 address new types of assurance engagements of same heightened public interest as audits</td>
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<td>─ From a perception point of view, it better demonstrates that same ethics and independence standards should apply to audits of financial statements and sustainability assurance engagements</td>
<td>• Further complexity to already complex independence standards for audits</td>
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<td>• Changes to extant independence standards for audits could give rise to potential unintended consequences</td>
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<tr>
<td>Advantages</td>
<td>Disadvantages/ Risks</td>
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<td>• 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</td>
<td>• Increased length of the Code given duplicated material</td>
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<td>– Facilitate easier understanding of standards and promote their wider adoption</td>
<td>• For auditors, some potential complexity in navigating standards in two different locations</td>
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<td>• Greater flexibility to cater for other types of assurance engagements in the future</td>
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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

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| - Separate set of standards developed and available for all sustainability assurance practitioners  
  - Facilitate easier understanding of standards and promote their wider adoption | - Potentially long lead-time for adoption in jurisdictions where legal backing is required for ethics and independence that sit outside the Code  
  - Replicate Parts 1, 3 and 4A of the extant Code  
  - For auditors, some potential complexity in navigating standards in two different locations |
CAG Representatives’ input is sought regarding:

• Scope of the new ethics and independence standards

• The proposed options for presenting the new standards, including their pros and cons

• Any preferred option
Sustainability assurance providers who are not PAs range from very large global operations down to relatively small single country operators.

- Generally, they are corporate rather than partnerships.

The large operators provide a wide range of other consultancy services. Some services are of an accountancy nature, such as due diligence, financial valuations, verification of business transactions and tax-related services.

Sustainability related services provided include ISO certifications (e.g., for GHG emissions) and assurance in compliance with ISAE 3000/ISAE3410.

- Assurance levels provided include both limited and reasonable.

Only a few providers indicate compliance with the IESBA Code or an equivalent.

- Some refer to their own or other organization’s code which typically are very much less detailed than IESBA Code.
- Other statements on independence.
Independence Considerations

• IESBA will consider whether threats to fundamental principles and independence in Part 4A can also be applied to equivalent scenarios in context of sustainability assurance
  – Are there any other scenarios the new independence standards for sustainability assurance engagements need to address?

• Some terminology used in Part 4A is specific for accounting firms and audit of the financial statements
  – Whether this terminology and principles are fit-for-purpose for profession-agnostic ethics and independence standards for all sustainability assurance providers
  – IESBA is seeking feedback whether the standards should include more neutral terms, for example “engagement leader” instead of “engagement partner”
Independence Considerations
Interests and Relationships

• Relationships addressed in Part 4A in the context of audit clients could also create threats to independence in the context of sustainability assurance engagements and sustainability assurance clients

• First-time implementation of new standards by non-PA assurance providers could result in breaches from day one
  – For example, fee cap from one client or provisions on partner rotation

• It could risk voluntary adoption of the new standard

• IESBA will consider potential ways to help first-time implementation
  – For example, guidance for non-PAs addressing their specific challenges while applying the Code

• Regulators and others who oversee and enforce compliance may need to consider transitional issues in relation to implementation
Independence Considerations
Provision of Non-Assurance Services

• IESBA will consider how the current prohibitions regarding non-assurance services in Sections 400 and 600 would apply in the context of sustainability assurance engagements
  - For example, prohibition on assuming management responsibilities and “self-review threat” prohibition

• Do sustainability assurance providers provide other services that could create threats to independence? WS1 is seeking input on whether sustainability assurance practitioners provide any other services to their clients
  - For example, management of sustainability data and information of the client
  - As an underlying principle, S 600 already requires the application of conceptual framework to new and emerging services

• Are there any potential threats to independence when an auditor also performs sustainability assurance for an audit client?
  - It may also result in revisions to current standard for auditors of financial statements
CAG Representatives’ input is sought regarding the proposed approach for independence considerations applicable to sustainability assurance engagements?
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

Next Steps
Any Questions or Comments