

Sustainability (WS2)**Key Issues and Work Stream 2 Views and Proposals****I. INTRODUCTION**

1. This issues paper discusses the key issues identified by the Sustainability Work Stream 2 (WS2) as it developed the full draft of ethics standards for sustainability reporting and assurance and the WS2's views and proposals.
2. This paper should be read in conjunction with:¹
 - The draft proposed revisions to extant Parts 1, 2 and 3 relating to ethics standards for sustainability reporting (**Agenda Item 4-B**);
 - The draft proposed Part 5 relating to ethics standards for sustainability assurance (**Agenda Item 4-C**);
 - The presentation that explains the proposed revisions in Part 3 and the new provisions in Part 5 regarding the communication to the auditor / sustainability assurance practitioner (SAP) under the section on responding to non-compliance with laws and regulations (NOCLAR) (**Agenda Item 4-D**);
 - The revised glossary containing all the revisions proposed by the Sustainability Task Force to the glossary in the extant Code (**Agenda Item 4-E**);
 - The marked-up draft of the definition of “sustainability information” (from the June 2023 version) which also includes explanations for the changes made to the June 2023 draft (**Agenda Item 4-F**).
3. The WS2 would like to draw the IESBA's attention to the following issues:
 - Communicating that the IESBA Code can be applied by all preparers of information (see Part II of this paper);
 - Revised scope of the ethics standards under Part 5 (see Part III of this paper);
 - Whether to include equivalent Sections 230, 321 and 350 in Part 5 (see Part III of this paper);
 - Communicating NOCLAR or suspected NOCLAR to the auditor / SAP (see Part IV of this paper);
 - Definition of sustainability information (see Part V of this paper);
 - Definition of professional activity (see Part V of this paper).
4. In developing the draft proposed texts, the WS2 has sought feedback from the Sustainability Reference Group (SRG), via virtual calls as well as emails, on matters such as the relevance of the examples used in the Code.

¹ The draft 2024 version of the Code was used to prepare Agenda Item 4-B, 4-C and 4-E.

II. ETHICS STANDARDS FOR SUSTAINABILITY REPORTING

5. At its June 2023 meeting, the IESBA considered and supported the WS2’s proposal to develop ethics standards for sustainability reporting albeit not in a profession-agnostic way at this point in time. The WS2’s proposal was based on the following:
 - At the IESBA’s March-April 2023 global sustainability roundtables (RT), RT participants acknowledged the importance of having ethics standards apply to all preparers of sustainability information given their role as the first line of defense against corporate malfeasance. However, there was no strong support for IESBA to develop profession-agnostic ethics standards for sustainability reporting at this moment, due to doubts about the enforceability of such standards on those who are not professional accountants (non-PAs) as well as other factors such as current use of corporate governance codes by regulators.
 - There was no urgent international regulatory call for profession-agnostic ethics standards for sustainability reporting at this time.
 - The need to expand the scope of extant Part 2 to all preparers of sustainability reporting is a much broader strategic matter which will require the IESBA’s consideration over a longer period of time and discussions with a broad range of stakeholders.
6. The IESBA also discussed at its June 2023 meeting how best to encourage non-PAs to apply the IESBA Code and to communicate the message that the IESBA Code contains ethics standards that are relevant to, and can be applied by, all preparers of financial and non-financial information. The IESBA considered the options of adding a paragraph in the new Part 5 to encourage non-PAs to use the Code more broadly as well as issuing a public statement on the public interest for all preparers of sustainability information to be subject to the same high ethics standards.
7. The IESBA also asked the WS2 to consider whether to develop a separate section focusing on sustainability reporting in extant Part 2 and/or Part 3.

A. Communicating that the IESBA Code can be Applied by all Preparers of Financial and Non-Financial Information

Options for Consideration

8. The WS2 identified three options for consideration by IESBA to convey the message of the relevance of the Code and encourage non-PAs to use the Code. The first two options were discussed on a preliminary basis at the June 2023 IESBA meeting and the third option was developed by WS2.

Option	Arguments for	Arguments against
Option 1 Expand the “encouragement” in the introduction to Part 5 to make it more explicit that the Code is relevant and can be used by everyone preparing financial and non-financial,	<ul style="list-style-type: none"> • Being within the Code strengthens its persuasiveness. • This option could build on proposed equivalent paragraph 100.2b (in Part 5) which encourages SAPs to 	<ul style="list-style-type: none"> • Because it will be in Part 5, the proposed “encouragement” only addresses non-PAs who are SAPs and would not be visible to non-PAs in the sustainability space who are

Option	Arguments for	Arguments against
<p>including sustainability, information.</p>	<p>apply the Code to other engagements, activities, and relationships that are not covered by Part 5.</p>	<p>not SAPs and accordingly, would not refer to Part 5.</p> <ul style="list-style-type: none"> Expanding the “encouragement” within Part 5 to cover all preparers of financial and sustainability information would be inconsistent with the scope of Part 5 on SAPs.
<p>Option 2</p> <p>Issue a public statement concurrently with the release of the exposure draft (ED) for the Sustainability Project.</p> <p>This statement will emphasize that ethics should be consistently applied across the financial and non-financial reporting ecosystem.</p>	<ul style="list-style-type: none"> Send a strong message on IESBA’s position. Being issued concurrently with the ED and outside the Code increases the exposure to stakeholders of IESBA’s position. It will have a broader audience than the Code. 	<ul style="list-style-type: none"> Less longevity and less persuasive than being part of the Code.
<p>Option 3</p> <p>Include the “encouragement” in the Guide to the Code (the Guide) under the “Purpose of the Code” Section, that the Code can be used by everyone preparing financial and non-financial, including sustainability, information, whether they are PAs or not.</p>	<ul style="list-style-type: none"> Bring the “encouragement” to the forefront of the Code. The Guide is more visible to everyone (as opposed to Part 5 which only targets SAPs), so including the encouragement there would improve the likelihood of preparers (not just SAPs) noticing it. The Guide is not part of the body of the Code, so any changes therein would not create inconsistency with the scope of Part 5 (refer to Option 1). 	<ul style="list-style-type: none"> The Guide is a non-authoritative aid to using the Code and therefore it is less persuasive to include the encouragement here than in the body of the Code.

WS2 Recommendation

9. WS2 recommends a hybrid approach incorporating all three options as follows:

- Include an encouragement in the Purpose of the Code section of the Guide to the Code to the effect that the Code can be applied by everyone preparing financial and non-financial, including sustainability, information.
- Expand the encouragement in the introduction to Part 5 to make it more explicit that the Code (instead of only the standards in Part 5) can be applied voluntarily by non-PAs that are SAPs to engagements, activities and relationships that are not covered by Part 5.
- Issue a public statement to the effect that ethics should be consistently applied across the reporting ecosystem, concurrently with release of the ED. The WS2 notes that the IESBA will continue to explore the option of expanding the Code to other professionals and practitioners as part of its broader strategy in the foreseeable future.

Matters for IESBA Consideration

1. Do IESBA members agree with WS2's proposal for communicating that the IESBA Code can be applied by all preparers of information?

B. Draft Standards for IESBA Discussion

General

10. For the purposes of the IESBA's deliberation at its June 2023 meeting, the WS2 presented draft proposed revisions only to Sections 220² and 230,³ incorporating feedback from the March 2023 IESBA meeting and input received from RT participants.
11. In July 2023, the WS2 sought feedback from the IESBA's Sustainability Reference Group (SRG), particularly on the appropriateness of the examples and factors set out in Parts 1 to 3 of the Code.
12. For the September 2023 IESBA meeting, the WS2 has developed draft proposed revisions to Parts 1, 2 and 3 of the extant Code to address specific ethics concerns on sustainability reporting, taking into account the IESBA's feedback in June 2023 and input received from the SRG (refer to **Agenda Item 4-B**). The proposed revisions have been drafted from the perspective of professional accountants (PAs) which is aligned with the expected outputs in the [project proposal](#) of "revisions to Parts 1 to 3 of the Code to provide specific ethics requirements and guidance relevant to sustainability reporting" (see paragraph 56 of the proposal).
13. The proposed revisions were prepared in accordance with the characteristics set out in the Public Interest Framework (PIF), in particular:
 - *Coherence* with the overall body of IESBA's standards, recognizing that the extant Parts 2 and 3 already contain robust standards that address ethics issues relating to professional accountants in business (PAIBs) providing professional activities and professional accountants in public practice (PAPPs) providing professional services respectively.

² Section 220, *Preparation and Presentation of Information*

³ Section 230, *Acting with Sufficient Expertise*

- *Relevance and clarity and conciseness* of the standards, notably by adding only those considerations and examples that are necessary to make Parts 1 to 3 fit for sustainability reporting.
 - *Implementability and enforceability*, notably by maintaining the integrity of Parts 1 to 3 and making specific revisions only where necessary.
14. The WS2 proposes to add references to non-financial, including sustainability, information where financial information is mentioned as relevant in Parts 1 to 3 to emphasize that the ethics provisions in the Code apply equally to such information.
 15. Conforming amendments to, and revisions for consistency with, the new proposed Part 5 are also proposed. This includes adding references to Part 5 where relevant and for consistency in provisions, such as the inclusion of a sustainability-related committee (see paragraph 20) and the quantitative and qualitative characteristics of the value chain (see paragraph 22).
 16. Revisions to the provisions under the sections “Using the Work of Others” in Section 220, and “Using the Work of an Expert” and “Other Considerations” in Section 320⁴ are proposed by the Use of Experts Task Force and will be discussed under Agenda Item 7. The provisions under these sections have been left blank.

Revisions to Part 1

17. Part 1 of the Code sets out the fundamental principles and the conceptual framework as the Code’s foundational building block, applicable to all professional accountants when undertaking professional activities and services. Accordingly, WS2 believes only minimal changes to Part 1 are required.
18. WS2 considered including a reference to forward-looking information in paragraph 120.5 A4 as a consideration when exercising professional judgment. However, WS2 believes this requires further consideration to ensure it would not create an unintended expectation for auditors to consider forward-looking information.

Revisions to Part 2

19. The WS2 proposes revisions to strengthen Part 2 to address a number of sustainability reporting considerations including: the role of a PAIB in sustainability reporting, greenwashing, the value chain and the forward-looking nature of sustainability information. Many of the revisions made to Sections 200, 220 and 270 are new or revised examples relevant to sustainability reporting.
20. Key revisions to Part 2 that the WS2 wishes to note for the IESBA’s consideration include:

Section	Key revisions
200	<ul style="list-style-type: none"> • Proposed revisions to Section 200⁵ mostly include updated existing examples as well as new examples relating to the identification of threats to compliance with

⁴ Section 320, *Professional Appointments*

⁵ Section 200, *Applying the Conceptual Framework – Professional Accountants in Business*

	<p>the fundamental principles to incorporate sustainability reporting in paragraph 200.6 A1.</p> <ul style="list-style-type: none"> • Included a sustainability-related committee as an additional example of a subgroup of those charged with governance in addition to an audit committee (paragraph 200.9 A2). This revision is also proposed in paragraph 300.9 A2 and the equivalent paragraph in Part 5.
220	<ul style="list-style-type: none"> • Section 220 is a particularly relevant section for ethics standards on sustainability reporting given its focus on preparation and presentation of information, which already includes both financial and non-financial information. • Therefore, the WS2 is proposing to, amongst other matters, develop: <ul style="list-style-type: none"> ○ New examples relating to the requirement on preparing and presenting information set out in paragraph R220.4. ○ New examples relating to the exercise of discretion. Given the level of immaturity with sustainability reporting and the qualitative nature of sustainability information, as highlighted in the project proposal the WS2 is of the view that additional guidance on exercising discretion may be helpful.
240 ⁶	<ul style="list-style-type: none"> • WS2 proposes revisions to Section 240 to reflect that financial interests, compensation and incentives might also be linked to non-financial, including sustainability, reporting and to include “incentives” in paragraph 240.3 A2 to capture future behavior or performance commensurate with the forward-looking focus of certain sustainability reporting.
260 ⁷	<ul style="list-style-type: none"> • Extant paragraph R260.15 requires the PAIB to determine whether disclosure of NOCLAR or suspected NOCLAR to the external auditor is needed. Due to equivalent public interest in sustainability assurance engagements that meet the independence criteria in new Part 5 to that of an audit, WS2 proposes to expand this requirement for the PAIB to also determine whether disclosure to the SAP is needed. • Refer also to the discussions on NOCLAR below in Part IV.
270 ⁸	<ul style="list-style-type: none"> • WS2 proposes revisions to Section 270 to incorporate new examples, and the adaption of existing examples, of pressure that might result in threats to compliance with the fundamental principles. This includes pressure to misrepresent information through greenwashing, prepare sustainability information with deficient data, and manipulate sustainability information.

⁶ Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*

⁷ Section 260, *Responding to Non-compliance with Laws and Regulations*

⁸ Section 270, *Pressure to Breach the Fundamental Principles*

230 and 250 ⁹	<ul style="list-style-type: none">• WS2 did not identify any required revisions for Sections 230 or 250.
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Revisions to Part 3

21. WS2 considered Part 3 from the perspective of a PAPP providing sustainability reporting services and believes significant changes are not required.
22. Amongst other matters, WS2 proposes:
 - Similar to the revisions made to Section 200, to revise existing examples and include new examples relating to the identification of threats to compliance with the fundamental principles to incorporate sustainability reporting in paragraph 300.6 A1.
 - A new paragraph 300.7 A4a (and factor in paragraph 320.3 A4) to highlight that quantitative and qualitative characteristics of a client's value chain might impact the evaluation of the level of threats. The quantitative and qualitative characteristics relates to for example, the number of entities in the value chain and their geographic spread. These revisions are also proposed in the equivalent paragraphs in Part 5.
 - An example of circumstances that might create a conflict of interest from a sustainability perspective (paragraph 310.4 A1) and a sustainability-related factor relevant in evaluating the level of threats created by contingent fees (paragraph 330.4 A2).
23. With regards to the NOCLAR provisions set out in Section 360¹⁰:
 - Given the IESBA's position that the public interest in sustainability assurance engagements that are subject to the independence requirements in new Part 5 is equivalent to that of an audit, the WS2 proposes to add a new requirement for an auditor to consider whether to communicate NOCLAR or suspected NOCLAR to the SAP performing a sustainability assurance engagement that meets the criteria for the scope of the independence standards in Part 5 (See paragraphs R360.18a to 360.18a A2 in **Agenda Item 4-B**).
 - Refer to the discussions on NOCLAR in Part IV of this paper.
24. WS2 did not identify any revisions necessary for Sections 321¹¹, 325¹², 340¹³ or 350¹⁴.

Matters for IESBA Consideration

2. IESBA members are asked to share their views on:
 - (a) WS2's proposed revisions to Parts 1, 2 and 3 of the Code.
 - (b) WS2's view that no revisions are required for Sections 230, 250, 321, 325, 340 or 350.

⁹ Section 250, *Inducements, Including Gifts and Hospitality*

¹⁰ Section 360, *Responding to Non-Compliance with Laws and Regulations*

¹¹ Section 321, *Second Opinions*

¹² Section 325, *Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*

¹³ Section 340, *Inducements, Including Gifts and Hospitality*

¹⁴ Section 350, *Custody of Client Assets*

C. Separate Sections for Sustainability Reporting

25. At its June 2023 meeting, the IESBA requested WS2 to consider whether IESBA should develop a separate section in the Code for sustainability reporting, notably addressing greenwashing issues. The table below sets out the arguments for and against developing such a separate section in Part 2 and/or Part 3:

Developing a Separate Section for Sustainability Reporting	
Arguments For	Arguments Against
<ul style="list-style-type: none"> • Elevate the prominence of ethics standards for sustainability reporting. • Concentrate sustainability reporting standards in one space. • Potentially enhance the development of profession-agnostic standards for sustainability reporting should IESBA determine to do this in the future. 	<ul style="list-style-type: none"> • Having separate sections could create a perception that the ethics standards for sustainability reporting are significantly different from those applying to financial information. • The requirements in the extant Code are equally applicable, relevant and robust to sustainability reporting as demonstrated in the <u>IESBA Staff Questions & Answers October 2022 Ethics Considerations in Sustainability Reporting</u>. • Proposed changes to Sections 200, 220 and 270 adequately cover sustainability reporting, including greenwashing, the impact of the characteristics of the value chain and the complications related to using forward-looking information. They also provide additional guidance on how to apply the requirements in the extant Code to sustainability-related ethics issues. • Many of the extant provisions throughout the Code are relevant to sustainability reporting – for instance, the provisions in Part 1 of the extant Code on having an inquiring mind, transparency, and dealing with complexity are particularly relevant when dealing with the complexities of Scope 3 emissions and data from within the value chain. • Significant resource implications for both IESBA members and Staff that will create additional challenges to meet the deadline for the development of an ED for approval by December 2023.

WS2 Recommendation

26. The WS2 does not recommend developing a separate section(s) in the Code for sustainability reporting at this time. Should IESBA make a strategic decision in the longer-term to develop profession-agnostic ethics standards for sustainability reporting, Staff recommend this issue is reconsidered then.

Matters for IESBA Consideration

3. Do IESBA members agree with WS2's proposal not to develop separate sections in the Code for sustainability reporting at this time?

III. ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE

27. As agreed by the IESBA in June 2023, the draft ethics standards for sustainability assurance were drafted under a new Part 5 of the Code (**Agenda Item 4-C**). This new Part 5 will apply to all SAPs, regardless of whether they are PAs or non-PAs. The rest of the Code will continue to apply to PAs when they undertake other professional activities, including the audit of financial statements.
28. The WS2 is of the view that the draft Part 5 was prepared in accordance with the PIF characteristics, notably:
- *Coherence* with the overall body of IESBA's standards, recognizing that the extant Code is already a robust guide for ethical behavior when providing audit, review and other assurance services. As such, Parts 1 and 3 as well as section 270 of the extant Code, pursuant to the IESBA's discussion in June 2023, were used as a baseline for developing the ethics requirements and application material in the new draft Part 5.
 - *Clarity and conciseness* of the standards, by using a language and structure that is understandable by all SAPs. In particular, draft Part 5 follows the same building block approach in the extant Code (i.e., starting with the fundamental principles and the conceptual framework as the foundations of the new ethics and independence standards for sustainability assurance).

To ensure an interpretation of Part 5 that aligns with the current interpretation of the extant Code in order to achieve equivalence, the language used in draft Part 5 is as much as possible identical to the language used in the extant Code, with the exception of the necessary adaptations including the use of sustainability-related examples in the application material.
 - *Implementability and enforceability*, by adopting an identical structure to the extant Code, with a clear distinction between requirements and application material. Further, since the new Part 5 is part of the existing Code, it will avoid the issues raised by IESBA members about the lengthy legal process of adopting a new standalone standard or Code for sustainability assurance in some jurisdictions.
29. **Agenda Item 4-C** includes an updated version of the draft ethics standards for sustainability assurance for the new Part 5 with mark-up from the extant Code. Further:
- It incorporates comments made by IESBA participants at the June 2023 meeting and via email between August 3 and 14, 2023 as well as input from the SRG, especially with regards to the examples.

- The paragraph numbering in Part 5 in **Agenda Item 4-C** mirrors that of the provisions in the extant Code. The numbering in Part 5 will be discussed at the September 2023 meeting under the common issues (Agenda Item 2).
- In addition to the explanations below on the key topics and issues, comment boxes were included in **Agenda Item 4-C** to explain specific matters for IESBA consideration and note where comments from IESBA participants were incorporated.
- References to professional activities and services were retained throughout Part 5 and “engagements” is no longer a word used in lieu of those terms. See Part V.B of this paper for WS2’s rationale and proposals.

A. Revised Scope of the Ethics Standards

30. At its June 2023 meeting, the IESBA supported WS2’s proposal for the scope of the ethics standards under Part 5 to include a sustainability assurance engagement conducted by a SAP that meets the criteria for the scope of the independence standards in Part 5 *as well as* other engagements/services performed by the SAP for the same sustainability assurance client.
31. Following subsequent deliberations, WS2 agreed to make the following proposed revisions to the scope of the ethics standards under Part 5:
- Expand the scope of the ethics standards under Part 5 to **all** sustainability assurance engagements including those that do not meet the criteria for the purposes of the independence standards.
32. The reasons for this revised proposal are set out in **Agenda Item 4-C** (p. 2). This revised proposal makes no change to the part of the proposed scope where the ethics standards also apply to other services performed for the same client.
33. The WS2 is of the view that this revised scope – under which the ethics standards in Part 5 apply to all sustainability assurance engagements and other services for sustainability assurance clients – is aligned with the PIF characteristics, notably: *appropriate scope, relevance, completeness and comprehensiveness.*

Matter for IESBA Consideration	
4.	Do IESBA members agree with WS2’s recommendation regarding the revised scope of the ethics standards under Part 5?

B. Other Key Topics for IESBA Consideration

34. Below are the other key topics in **Agenda Item 4-C** that WS2 would like to note for the IESBA’s consideration.

Topic	Matter for Consideration
New paragraph in the introduction of Part 5 regarding the expertise and training of SAPs	<ul style="list-style-type: none"> • A new paragraph 100.1a was added following a suggestion from an IESBA participant at the June 2023 meeting noting that those performing sustainability assurance should have adequate expertise, experience and training to do so.

	<ul style="list-style-type: none"> The rationale for adding this paragraph in Part 5 is that the provision of sustainability assurance is mostly an unregulated market at this moment. This is not the case for the accountancy profession; hence no equivalent paragraph is proposed for extant Part 1.
Equivalent selected sections from Part 2	<ul style="list-style-type: none"> The scope of the project is to develop ethics and independence standards for SAPs that are equivalent to those applying to auditors. In terms of the ethics standards, this meant adapting extant Parts 1 and 3 which apply to PAPPs. However, in certain circumstances, PAPPs may also be required to apply the provisions in Part 2 of the Code. That is the case when PAPPs perform professional activities pursuant to their relationship with the firm (see the applicability paragraphs in extant paragraphs R120.4, R300.5, 300.5 A1). In June 2023, the IESBA discussed whether Part 2 should also be adapted into Part 5 and supported WS2’s proposal that this should not be the case in general, since the scope of the project focuses on the SAP’s relationship with the client, not the firm. However, given certain Sections in Part 2 (notably, Sections 220 and 270) can also apply to the PAPP’s relationship with the client, the IESBA supported the WS2’s proposal of including an equivalent Section 270 in Part 5 (see p. 26-29 of Agenda Item 4-C). The IESBA also agreed to not include an equivalent Section 220 as it relates to reporting, not assurance, activities. Regarding Section 230, whilst technically it could also apply to a PAPP’s relationship with the client, the IESBA preferred to consider a draft equivalent of that Section for Part 5 before determining if an equivalent Section 230 should be included in Part 5. Following deliberation, the WS2 proposes not to add an equivalent Section 230 into Part 5 for the reasons set out in p. 23-25 of Agenda Item 4-C.
Sections in extant Part 3 proposed not to include in Part 5	WS2 proposes not to add equivalent Sections 321 or 350 into Part 5 for the reasons set out in p. 50 and 62 (respectively) of Agenda Item 4-C .
NOCLAR	See Part IV below.
Considerations related to the value chain	Equivalent paragraphs 300.6 A1 (b), 300.7 A4a, 320.3 A4, and 360.7 A3 include specific wording or examples addressing the relevance of the value chain in the context of sustainability assurance.

35. In summary, WS2’s proposed table of contents of the ethics standards under Part 5 (**Agenda Item 4-C**) is as follows:

- Equivalent Section 100 (to be renumbered to 5100) – Complying with Part 5
- Equivalent Section 110 (to be renumbered to 5110) – The Fundamental Principles

- Equivalent Section 120 (to be renumbered to 5120) – The Conceptual Framework
- Equivalent Section 270 (to be renumbered to 5270) – Pressure to Breach the Fundamental Principles
- Equivalent Section 300 (to be renumbered to 5300) – Applying the Conceptual Framework
- Equivalent Section 310 (to be renumbered to 5310) – Conflicts of Interest
- Equivalent Section 320 (to be renumbered to 5320) – Professional Appointments
- Equivalent Section 325 (to be renumbered to 5325) – Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers
- Equivalent Section 330 (to be renumbered to 5330) – Fees and Other Types of Remuneration
- Equivalent Section 340 (to be renumbered to 5340) – Inducements, Including Gifts and Hospitality
- Equivalent Section 360 (to be renumbered to 5360) – Responding to Non-Compliance with Laws and Regulations

Matters for IESBA Consideration

5. Do IESBA members agree with WS2's recommendations:
 - (a) Not to include equivalent Section 230 in Part 5?
 - (b) Not to include equivalent Section 321 in Part 5?
 - (c) Not to include equivalent Section 350 in Part 5?
6. IESBA members are asked to share their views on WS2's proposed draft ethics standards under Part 5.

IV. NOCLAR

36. At its June 2023 meeting, the IESBA discussed WS2's proposals regarding the NOCLAR provisions in draft Part 5. **Agenda Item 4-C** includes WS2's responses to the IESBA participants' comments at the meeting and its proposals.

A. Procedures for SAPs to Address NOCLAR or Suspected NOCLAR Depending on the Service Performed (Part 5)

37. Extant Section 360 includes two sets of provisions that deal with essentially the same issues regarding NOCLAR. One set is under the heading "Audits of Financial Statements" (paragraphs R360.10 to 360.28 A1) and the other is under the heading "Professional Services Other than Audits of Financial Statements" (paragraphs R360.29 to 360.40 A1). The second set of provisions includes provisions on communicating the NOCLAR or suspected NOCLAR to the client's external auditor.
38. In June 2023, IESBA supported WS2's proposal to develop equivalent provisions in Part 5, which:
 - Includes the set of provisions for "Audits of Financial Statements" (paragraphs R360.10 to 360.28 A1) as the basis and adding the provisions on the communication of NOCLAR or

suspected NOCLAR to the auditor from the set of provisions for “Professional Services Other than Audits of Financial Statements”.

- Does not include the rest of the provisions for “Professional Services Other than Audits of Financial Statements”.

39. Following further deliberation, WS2 agreed that:

- The proposal mentioned above should apply to sustainability assurance engagements that meet the scope for the independence standards since those engagements and audits of the financial statements are underpinned by the same level of public interest.
- However, since WS2 proposes that the ethics standards under Part 5 also apply to sustainability assurance engagements that do not meet the scope of the independence standards as well as other services performed for the same clients, equivalent provisions to the set of provisions under “Professional Services Other than Audits of Financial Statements” should also be included in Part 5. See **Agenda Item 4-C** for the proposed provisions and the rationale (p. 66 and 76).

B. Communication of NOCLAR or Suspected NOCLAR by the Auditor (Revisions to Part 3) and the SAP (Part 5)

40. As highlighted above, at its June 2023 meeting, the IESBA supported WS2’s proposal to include a requirement in Part 5 for the SAP to consider communicating NOCLAR or suspected NOCLAR to the auditor of the sustainability assurance client’s financial statements. In addition, IESBA participants:

- Queried about whether there should also be a mirrored requirement in extant Section 360 for the auditor to communicate to the SAP.
- Discussed whether to include the likely materiality of the matter to the audit of the financial statements as a factor when the SAP is considering communicating NOCLAR or suspected NOCLAR to the client’s auditor (see equivalent paragraph 360.18a A1 in **Agenda Item 4-C**).

41. Following deliberation, the WS2 agreed to, respectively:

- Propose mirroring in Part 3 the requirement proposed in Part 5. As a result, the auditor of the financial statements is required to consider communicating NOCLAR or suspected NOCLAR to SAP(s) performing a sustainability assurance engagement that meets the scope of the independence standards for the same client. See **Agenda Item 4-D** for additional detail on this topic.
- Retain its proposal not to include the factor mentioned above in Part 5, or mirroring provision in Part 3. See **Agenda Item 4-C** (p. 72) and **Agenda Item 4-B** (p. 36), respectively, for WS2’s rationale on this topic.

42. See **Agenda Item 4-D** for the full set of WS2’s proposals and respective rationale regarding communication of NOCLAR or suspected NOCLAR in Parts 3 and 5, including:

- Requirement for the SAP performing a sustainability assurance engagement that meets the scope of the independence standards to consider communicating NOCLAR or suspected NOCLAR to the auditor of the client’s financial statements.¹⁵
- Requirement for the auditor of the financial statements to consider communicating NOCLAR or suspected NOCLAR to the SAP performing a sustainability assurance engagement that meets the scope of the independence standards for the same client.¹⁶
- No change to the communication provisions under “Professional Services Other than Audits of Financial Statements” in Part 3.
- Mirroring the communication provisions under “Professional Services Other than Audits of Financial Statements” (set out in Part 3) in the procedures applicable to sustainability assurance engagements that do not meet the scope of the independence standards as well as other services for the same clients in Part 5.

C. Communication of NOCLAR or Suspected NOCLAR by the PAIB (Revisions to Part 2)

43. As mentioned in paragraph 20 above, WS2 proposes to revise extant Part 2 so that PAIBs are required to determine whether NOCLAR or suspected NOCLAR also warrants disclosure to the employing organization’s SAP performing a sustainability assurance engagement that meets the scope of the independence standards. See **Agenda Item 4-B** for the proposed revisions to Section 260.

Matters for IESBA Consideration

7. IESBA members are asked to share their views on WS2’s proposals set out in **Agenda Item 4-B**, **Agenda Item 4-C** and **Agenda Item 4-D** on communicating NOCLAR or suspected NOCLAR to the auditor / SAP.

V. TERMS AND DEFINITIONS

44. At the March and June 2023 IESBA meetings, the WS2 presented its proposed approach regarding three key terms and definitions:
- Sustainability information
 - Sustainability assurance practitioner; and
 - Professional activity.
45. In developing its proposals for the September 2023 IESBA meeting, the WS2 has taken into account the IESBA’s comments in June and August 2023.
46. For all the revisions proposed by the Sustainability Task Force to the glossary, refer to **Agenda Item 4-E**.

¹⁵ This proposed requirement is set out in Part 5, procedures for “Sustainability Assurance Engagements that Meet the Scope Set Out in Paragraph [...]” (section equivalent to “Audits of Financial Statements” in Part 3).

¹⁶ This proposed requirement is set out in Part 3, procedures for “Audits of Financial Statements” (this section was the basis for the provisions under “Sustainability Assurance Engagements that Meet the Scope Set Out in Paragraph [...]” in Part 5).

47. WS2 will continue to coordinate with the IAASB Sustainability Task Force regarding the definitions used by both Boards, especially after the closure of the comment period for the draft International Standard on Sustainability Assurance (ISSA) 5000¹⁷ which is currently released for exposure.

A. Revised Draft Definition of “Sustainability Information”

48. The WS2 developed the following revised definition of “sustainability information” for the IESBA’s consideration:

Sustainability information:

- (a) Information expressed in financial or non-financial terms, historical or forward-looking, about the opportunities, risks or impacts of:
- (i) Economic, environmental, social, governance or other sustainability factors on an entity’s activities, services or products; or
 - (ii) An entity’s activities, services or products on the economy, the environment or the public; or
- (b) Information defined by law, regulation or the relevant reporting or assurance framework as “sustainability information” or equivalent terms or descriptions.

Sustainability information includes information that may be:

- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain such as customers and suppliers.*
- *Related to the quantitative or qualitative evaluation of an entity’s past or expected performance over the short, medium or long term.*
- *Described in an entity’s policies, plans, goals, commitments or representations.*

49. As with the June 2023 draft, the draft above includes a ‘definition’ part (see subparagraphs (a) and (b)) and a ‘description or application material’ part (see the paragraph and bullets in italics).
50. See **Agenda Item 4-F** for a marked-up version of this updated definition (from the June 2023 version) as well as the explanations for the changes made to the June 2023 draft.
51. Draft ISSA 5000 includes two definitions: one for “sustainability information” and one for “sustainability matters”.¹⁸ The latter is aligned with WS2’s proposed definition of “sustainability information”.
52. The IESBA and the IAASB proposing different terms to describe the same reality relates to the fact that ISSA 5000 will apply to sustainability assurance only and the IESBA Code applies to the whole

¹⁷ ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

¹⁸ Sustainability information is defined as “Information about sustainability matters” and sustainability matters is defined as “environmental, social, economic and cultural matters, including: (i) The impacts of an entity’s activities, products and services on the environment, society, economy or culture, or the impacts on the entity, and (ii) The entity’s policies, performance, plans, goals and governance relating to such matters.”

range of services that PAs can provide¹⁹ and will also apply to sustainability assurance (by PAs and non-PAs).

53. Notwithstanding, the IESBA draft is broad enough to comprise the IAASB’s terminology – see subparagraph (b) of the draft above. In particular, subparagraph (b) scopes in other definitions of "sustainability information" used in assurance frameworks (such as ISSA 5000) as well as equivalent terms or descriptions (such as "sustainability matters").
54. This subparagraph (b) is a key component of WS2’s proposed draft since it promotes interoperability between the IESBA and IAASB standards. It also operationalizes the objective that the IESBA standards for sustainability assurance are framework-neutral. WS2 proposes that the IESBA Code adopts the draft above which seems more comprehensive than the definitions used in ISSA 5000.
55. In any case, both Boards’ proposed definitions are aligned in substance, as evidenced by:
 - The use of essentially the same sustainability-related factors (economic, environmental, social);
 - Both referencing double materiality;
 - Both describing governance-related initiatives (such as policies, plans and goals) where an entity’s sustainability strategy may be outlined.

Matters for IESBA Consideration

8. IESBA members are asked to share their views on the revised draft definition of “sustainability information”.

B. Definition of “Professional Activity”

Description of PA’s Professional Activities in the Education Standards

56. Following a suggestion made by an IESBA participant at the June 2023 meeting, IESBA Staff liaised with IFAC’s Accountancy Education Staff to understand how the International Education Standards (IES) describe PA’s professional activities and whether any changes are anticipated to the IES to reflect sustainability-related considerations.
57. Paragraph 4 of the Framework for Education Pronouncements (Education Framework) in the [2019 IES Handbook](#) states that:

“The accountancy profession includes, but is not limited to:

 - *Preparing, analyzing, and reporting relevant and faithfully represented financial and non-financial information;*
 - *Partnering in decision making, and in formulating and implementing organizational strategies;*
 - *Auditing financial and non-financial information, and providing other assurance and advisory services; and*

¹⁹ Including assurance but also financial and non-financial reporting activities.

- *Preparing and analyzing relevant tax information.”*

58. Paragraph 5 for the Education Framework states that:

“The accountancy profession serves the financial and, in some circumstances, the non-financial information needs of a broad range of decision makers including, but not limited to (a) the public, (b) present and potential investors, (c) management and employees within organizations, (d) suppliers and creditors, (e) customers, and (f) government authorities. The accountancy profession’s ability to satisfy users’ information needs contributes to an efficient economy that creates value to society.”

59. Staff was informed that in November 2023 IFAC will consider whether the existing IES warrant any amendments to reflect sustainability-related developments.

Definition of “Professional Activity” in the Code

60. At the June 2023 IESBA meeting:

- The WS2 proposed not to change the extant definition because it is sufficiently broad to encompass activities such as sustainability reporting and assurance by PAs. However, a few IESBA participants disagreed. Following deliberation, the WS2 agreed to propose adding a reference to “sustainability reporting” and “sustainability assurance” to the examples in the extant definition of “professional activity” to address those comments.
- The WS2 also proposed to use the term “engagement(s)” in Part 5 instead of the terms “professional activity” and “professional services” as used in the extant Code, for the following reasons:
 - Any changes to the definition of “professional activity” should be carefully considered as it is used by PAOs (e.g., Australia) for purposes of PAs’ certification, qualification, training, etc.
 - Since the proposed scope of the ethics standards in Part 5 covers sustainability assurance engagements as well as other engagements performed for sustainability assurance clients, there would be no need to qualify the activities and services performed by SAPs as “professional” since the qualifier would be the sustainability assurance client.
- An IESBA participant noted that using “engagement(s)” in lieu of “professional activity” and “professional services” in Part 5 without any explanation could create some confusion for PAs applying both Part 5 and the rest of the Code. It was suggested that the WS2 consider adding an explanation to the extant definition of “professional activity” and “professional services” clarifying that the term “engagement” would be used in Part 5 instead of those two existing terms.

61. In August 2023, the Task Force circulated the revised glossary to the IESBA for advance comments. The WS2 proposed to add a clarification to the definition of “professional activity” stating that *“In Part 5, the term “engagement” is used instead of professional activity for professional accountants”*. The same clarification was proposed to add to the extant definition of “professional services”. In response, a few IESBA participants continued to express reservations regarding the use of “engagements” instead of professional activities or services in Part 5 and reiterated the risk of confusing PAs. Instead, it was suggested that the WS2 considered having two definitions for “professional activity”, one for PAs and the other for SAPs.

62. Following further consideration, the WS2 proposes to use “professional activity” and “professional services” in Part 5 (instead of replacing them with “engagements” as proposed in the June 2023 IESBA meeting) and to revise the extant definition of “professional activity” to incorporate services provided by both PAs and SAPs so the **one** term will be used throughout the Code including the new Part 5.
63. The rationale for WS2’s proposal is as follows:
- Using the same terms (professional activities and services) throughout the Code is clearer for PAs because they are used to those terms and associate a certain meaning with them. Using a different (and undefined) word to signify the same as defined terms in the glossary could be a factor for confusion. At the same time, which term is used should not affect non-PAs because they may not be familiar with the Code.
 - Having a single definition (instead of two) promotes the integrity of the Code (and its glossary) and facilitates the readability and understandability of the Code and therefore its adoption, implementation and enforcement.
64. WS2 developed the following revised definition of “professional activity” for the IESBA’s consideration:

Professional activity:

An activity requiring professional skills undertaken by a professional accountant or a sustainability assurance practitioner, including accounting, auditing, sustainability reporting, sustainability assurance, tax, consulting, and financial management.

65. The WS2 proposes not to change the extant definition of “professional services” – which is “Professional activities performed for clients.” While technically the scope of the ethics standards in Part 5 only covers engagements performed for sustainability assurance clients, WS2 considers that to be a matter of scope which is better addressed in the introductory paragraphs of Part 5.

Matters for IESBA Consideration

9. IESBA members are asked to share their views on WS2’s proposals:
- (a) To use “professional activity” and “professional services” in Part 5 (instead of replacing them with “engagements”).
 - (b) To revise the definition of “professional activity” for the purposes of Part 5 and the remainder of the Code.
 - (c) Not to amend the extant definition of “professional services”.