Sustainability (WS2) – Ethics for Sustainability Reporting – Proposed Text – First Read

Note to IESBA

The proposed marked-up changes in **Agenda Item 4-B** are to the 2024 version of the Code (i.e., the extant Code including all revisions to the Code which become effective by the end of 2024).

Reasons for proposed revisions are set out in **Agenda Item 4-A** or in comment boxes in **Agenda Item 4-B** where relevant.

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

Introduction

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial, non-financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

(a) Adherence to ethical principles and professional standards;

(b) Use of business acumen;

(c) Application of expertise on technical and other matters; and

(d) Exercise of professional judgment.

The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The Code sets out high quality standards of ethical behavior expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics (including independence) standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that accountants might encounter, whether in business or in public practice.

….

Breaches of the Code

R100.8 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards* and [Placeholder for Part 5 equivalents] address a breach of independence standards in Part 5. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

(a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) Determine whether to report the breach to the relevant parties.

100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 110
THE FUNDAMENTAL PRINCIPLES

….

SUBSECTION 111 – INTEGRITY

….

SUBSECTION 112 – OBJECTIVITY

….

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

….

SUBSECTION 114 – CONFIDENTIALITY

….

SUBSECTION 115 – PROFESSIONAL BEHAVIOR

….

SECTION 120
THE CONCEPTUAL FRAMEWORK

….

Requirements and Application Material

General

R120.3 The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

(a) Part 2 – *Professional Accountants in Business*;

(b) Part 3 – *Professional Accountants in Public Practice*; and

(c) *International Independence Standards*, as follows:

(i) Part 4A – *Independence for Audit and Review Engagements*; and

(ii) Part 4B – *Independence for Assurance Engagements Other than Audit Engagements,~~and~~ Review Engagements and Sustainability Assurance Engagements that are not Addressed in Part 5* [Placeholder for final name].

(d) Part 5 – [Placeholder for final name *International Ethics and Independence Standards for Sustainability Assurance*].

R120.4 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

….

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

PART 2 - PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

Introduction

200.1 This Part of the Code sets out requirements and application material for professional accountants in business when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in business to be alert for such facts and circumstances.

200.2 Investors, creditors, employing organizations and other sectors of the business community, as well as governments and the general public, might rely on the work of professional accountants in business. Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial and non-financial~~other~~ information, including sustainability information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

200.3 A professional accountant in business might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.

….

Identifying Threats

200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a professional accountant when undertaking a professional activity:

(a) Self-interest Threats

- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
- A professional accountant participating in incentive compensation arrangements offered by the employing organization.
- A professional accountant holding a financial interest in a supplier of the employing organization and that supplier is impacted by the employing organization's sustainability targets or practices.
- A professional accountant having access to corporate assets for personal use.
- A professional accountant being offered a gift or special treatment from a supplier of the employing organization.

(b) Self-review Threats

- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- A professional accountant determining the appropriate methodology to calculate emission reductions after performing the feasibility study supporting a capital project to reduce emissions.

(c) Advocacy Threats

- A professional accountant having the opportunity to manipulate information in a prospectus, including in relation to a sustainability or sustainability-linked bond, in order to obtain favorable financing.

(d) Familiarity Threats

- A professional accountant being responsible for the financial or non-financial, including sustainability, reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial or non-financial reporting of the organization.
- A professional accountant having a long association with individuals influencing business decisions.

(e) Intimidation Threats

- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
  - o The application of an accounting principle or sustainability reporting standard.
  - o The determination of measurement methods, metrics, targets, estimation criteria or assumptions for sustainability information.
  - o The way in which financial or non-financial information is to be reported.
- An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle or sustainability reporting standard.

Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a professional accountant when undertaking a professional activity:

- Self-interest Threats
  - o The data available might not be sufficient for the effective use of the technology.
  - o The technology might not be appropriate for the purpose for which it is to be used.
  - o The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

  (Ref: Para. 230.2).
- Self-review Threats
  - o The technology was designed or developed using the knowledge, expertise or judgment of the accountant or employing organization.

….

Communicating with Those Charged with Governance

R200.9 When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the employing organization's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

200.9 A1 In determining with whom to communicate, a professional accountant might consider:

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

200.9 A2 Examples of a subgroup of those charged with governance include an audit committee, or another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

R200.10 If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organization, for example, a small business where a single owner manages the organization and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

SECTION 210

CONFLICTS OF INTEREST

….

Requirements and Application Material

General

R210.4 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

210.4 A1 Examples of circumstances that might create a conflict of interest include:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one organization that might be used by the professional accountant to the advantage or disadvantage of the other organization.
- Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the accountant to assist them to dissolve their partnership.
- Preparing financial or non-financial information for certain members of management of the accountant's employing organization who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the employing organization when an immediate family member of the accountant might benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the accountant or an immediate family member.

Conflict Identification

R210.5 A professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

(a) The nature of the relevant interests and relationships between the parties involved; and

(b) The activity and its implication for relevant parties.

….

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

220.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

220.3 A1 Professional accountants at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.

220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and those charged with governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organization's state of affairs and in making decisions concerning the organization. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Sustainability information, including such information provided to the sustainability assurance practitioner.
- Risk and impact analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

220.3 A3 For the purposes of this section, preparing or presenting information includes collecting, recording, measuring, maintaining and approving information.

R220.4 When preparing or presenting information, a professional accountant shall:

(a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;

(b) Prepare or present the information in a manner that is intended neither to mislead others nor to influence contractual or regulatory outcomes inappropriately;

(c) Exercise professional judgment to:

- **(i)** Represent the facts accurately and completely in all material respects;
- **(ii)** Describe clearly the true nature and impacts of business transactions or activities; and
- **(iii)** Collect, ~~C~~classify,~~ and~~ record and measure information in a timely and proper manner;

(d) Not omit anything with the intention of rendering the information misleading to others or of influencing contractual or regulatory outcomes inappropriately;

(e) Avoid undue influence of, or undue reliance on, individuals, organizations or technology; and

(f) Be aware of the risk of bias.

220.4 A1 An example of misleading others is intentionally giving a false impression about how well an organization or an investment is aligned with or achieving its sustainability goals by omitting relevant information, by inappropriately applying or reporting metrics, or by placing excessive emphasis on certain information while understating others.

220.4 A2~~1~~ An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

220.4 A3 An example of placing undue reliance on an organization is using the data provided by a large supplier within the entity's value chain to prepare and present the entity's sustainability information, without assessing whether there are deficiencies in the quality or accuracy of that supplier's data.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgments. The professional accountant shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.
- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Selectively using disclosures from a sustainability reporting framework, or from multiple sustainability reporting frameworks, in order to misrepresent that an organization is aligned to or achieving its sustainability goals.
- Selecting or changing measurement methods among two or more alternatives permitted under the applicable sustainability reporting framework in order to misrepresent material information regarding opportunities, risks or impacts.
- Inappropriately performing a materiality assessment on opportunities, risks or impacts to misrepresent sustainability information with the intent to mislead.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the timing of disclosures of sustainability information to achieve a more favorable presentation or better outcome.

- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial, sustainability or operating risk in order to mislead.
- Determining forward-looking information by relying on assumptions that may be unrealistic or inconsistent with management's decisions or intent.

R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the professional accountant shall exercise professional judgment to identify and consider:

(a) The purpose for which the information is to be used;

(b) The context within which it is given; and

(c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting sustainability information or pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

220.6 A2 The professional accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

Using the Work of Others [Placeholder for changes by Use of Experts TF – See Agenda Item 7]

….

Using the Output of Technology

R220.8 A professional accountant who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the accountant has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Addressing Information that Is or Might be Misleading

R220.9 When the professional accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

220.9 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the professional accountant's superior and/or the appropriate level(s) of management within the accountant's employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
  - Having the information corrected.
  - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.9 A2 The professional accountant might determine that the employing organization has not taken appropriate action. If the accountant continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the accountant remains alert to the principle of confidentiality:

- Consulting with:
  - A relevant professional body.
  - The internal or external auditor or sustainability assurance practitioner of the employing organization.
  - Legal counsel.
- Determining whether any requirements exist to communicate to:
  - Third parties, including users of the information.
  - Regulatory and oversight authorities.

R220.10 If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information.

220.10 A1 In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.

Documentation

220.11 A1 The professional accountant is encouraged to document:

- The facts and assumptions.
- The accounting principles, sustainability reporting standards or framework or other relevant professional standards involved.
- The accountant's analysis, courses of action considered, or judgments and decisions made in preparing and presenting the information.
- The communications and parties with whom matters were discussed.
- ~~The courses of action considered.~~
- How the accountant attempted to address the matter(s).

Other Considerations

220.12 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial or non-financial, including sustainability, reporting and decision making, the requirements and application material set out in Section 240 apply.

220.12 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.12 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

220.12 A4 When a professional accountant is considering using the work of others or the output of technology, a consideration is whether the accountant is in a position within the employing organization to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 230

ACTING WITH SUFFICIENT EXPERTISE

….

SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL OR NON-FINANCIAL REPORTING AND DECISION MAKING

….

Requirements and Application Material

General

R240.3 A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

240.3 A1 Professional accountants might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial or non-financial, including sustainability, reporting and decision making.

240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the professional accountant or an immediate or close family member:

- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant.
- Is eligible for a ~~profit-related~~ bonus or incentive based on financial or non-financial performance goals and the value of that bonus or incentive might be directly affected by decisions made by the accountant.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain financial or non-financial performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
  - o All relevant interests.
  - o Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

SECTION 250

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

….

SECTION 260

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

260.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

260.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts, impacts and disclosures in the employing organization's financial statements or sustainability information; and

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts, impacts and disclosures in the employing organization's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations

260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:

(a) To comply with the principles of integrity and professional behavior;

(b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) Deter the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

260.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(a) The professional accountant's employing organization;

(b) Those charged with governance of the employing organization;

(c) Management of the employing organization; or

(d) Other individuals working for or under the direction of the employing organization.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.

- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organization, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R260.6 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

(a) Any requirement to report the matter to an appropriate authority; and

(b) Any prohibition on alerting the relevant party.

….

Responsibilities of Senior Professional Accountants in Business

….

Addressing the Matter

….

260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

R260.15 In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor or sustainability assurance practitioner performing a sustainability assurance engagement that meets the scope set out in paragraph [placeholder], if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit or the sustainability assurance practitioner to perform the sustainability assurance engagement that meets the scope set out in paragraph [placeholder].

Commented [JR1]: WS2 proposes that as sustainability assurance engagements, that are subject to the independence scope in Part 5, are considered as equivalent to audits and from a public interest perspective, that this obligation on PAIBs should be expanded to also determine whether disclosure should be made to the sustainability assurance practitioner. Refer to Agenda Item 4-A for further details.

Determining Whether Further Action Is Needed

R260.16 The senior professional accountant shall assess the appropriateness of the response of the accountant's superiors, if any, and those charged with governance.

….

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

270.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

270.2 Pressure exerted on, or by, a professional accountant might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R270.3 A professional accountant shall not:

(a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or

(b) Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 A professional accountant might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

- Within the employing organization, for example, from a colleague or superior.
- An external individual or organization such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - o Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select the family member over another prospective vendor.

  See also Section 210, *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
  - o Pressure to report misleading financial or non-financial results to meet investor, analyst, ~~or~~ lender or other stakeholder expectations.
  - o Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
  - o Pressure to misrepresent, through labelling or otherwise, how certain programs, projects or products are aligned to or achieving sustainability goals.
  - o Pressure from colleagues to misstate income, expenditure, ~~or~~ rates of return or sustainability information to bias decision-making on capital projects and acquisitions.
  - o Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
  - o Pressure to suppress internal audit reports containing adverse findings.

  See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
  - o Pressure from superiors to inappropriately reduce the extent of work performed.
  - o Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.
  - o Pressure from superiors to prepare sustainability information with insufficient data or deficiencies in the quality and accuracy of data available.

  See also Section 230, *Acting with Sufficient Expertise*.
- Pressure related to financial interests:
  - o Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate financial or non-financial performance indicators.

  See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.
- Pressure related to inducements:
  - o Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision making process of an individual or organization.
  - o Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

  See also Section 250, *Inducements, Including Gifts and Hospitality*.
- Pressure related to non-compliance with laws and regulations:
  - o Pressure to structure a transaction to evade tax.
  - o Pressure to manipulate sustainability information to avoid fines for breaches of environmental laws and regulations.

  See also Section 260, *Responding to Non-compliance with Laws and Regulations*.
- Pressure related to level of fees:
  - o Pressure exerted by a professional accountant on another professional accountant to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

  See also Section 330, Fees and Other Types of Remuneration

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the professional accountant to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the accountant's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:
  - Higher levels of management.
  - Internal or external auditors or the sustainability assurance practitioner performing a sustainability assurance engagement that meets the scope set out in paragraph [placeholder].
  - Those charged with governance.
- Disclosing the matter in line with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
  - A colleague, superior, human resources personnel, or another professional accountant;
  - Relevant professional or regulatory bodies or industry associations; or
  - Legal counsel.

270.3 A5 An example of an action that might eliminate threats created by pressure is the professional accountant's request for a restructure of, or segregation of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure.

Documentation

270.4 A1 The professional accountant is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE
SECTION 300

Commented [JR2]: WS2 proposes amendments to Part 3 from the perspective of a professional accountant in public practice performing sustainability reporting/preparing sustainability information and not from a sustainability assurance perspective as the latter is covered in proposed new Part 5.

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Introduction

300.1 This Part of the Code sets out requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in public practice to be alert for such facts and circumstances.

300.2 The requirements and application material that apply to professional accountants in public practice are set out in:

- Part 3 – *Professional Accountants in Public Practice*, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.
- *International Independence Standards* as follows:
  - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
  - Part 4B – [Placeholder for final revised name *Independence for Assurance Engagements Other than Audit* Engagements, ~~and~~ *Review Engagements*, and Sustainability Assurance Engagements that are not Addressed in Part 5], Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit engagements, ~~or~~ review engagements, or sustainability assurance engagements that do not meet the scope set out in paragraph [placeholder].
- Part 5 – [Placeholder for final name of Part 5 *International Ethics and Independence Standards for Sustainability Assurance* and Section numbers], which applies to sustainability assurance practitioners.

300.3 In this Part, the term "professional accountant" refers to individual professional accountants in public practice and their firms.

Requirements and Application Material

General

R300.4 A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial or non-financial information, including sustainability information, for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

300.5 A2 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, accountants are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the accountant or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.
- A professional accountant having incentives linked to the outcome of a professional service to prepare sustainability information.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A professional accountant lobbying in favor of legislation on behalf of a client.
- A professional accountant promoting a particular sustainability-related initiative, product or service on behalf of a client.

(d) Familiarity Threats

- A professional accountant having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment or sustainability-related analysis.
- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a professional accountant when undertaking a professional activity:

- Self-interest Threats
  - o The data available might not be sufficient for the effective use of the technology.
  - o The technology might not be appropriate for the purpose for which it is to be used.
  - o The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

  (Ref: Para. 230.2).

- Self-review Threats
  - o The technology was designed or developed using the knowledge, expertise or judgment of the accountant or firm.

Evaluating Threats

….

The Client and its Operating Environment

….

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

300.7 A4a When performing a sustainability reporting service, the professional accountant's evaluation of the level of a threat to compliance with the fundamental principles might be impacted by the quantitative and qualitative characteristics of a client's value chain, such as the client's customers and suppliers. For example, a threat to compliance with the principle of professional competence and due care might be created if the sustainability information relevant to the service comes from multiple suppliers that are geographically dispersed or is prepared in accordance with diverse reporting frameworks.

The Firm and its Operating Environment

300.7 A5 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

….

Communicating with Those Charged with Governance

R300.9 When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

300.9 A1 In determining with whom to communicate, a professional accountant might consider:

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

300.9 A2 Examples of a subgroup of those charged with governance include an audit committee, or another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

R300.10 If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

SECTION 310

CONFLICTS OF INTEREST

….

Requirements and Application Material

General

R310.4 A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the professional accountant has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.
- Providing sustainability reporting services to a client while also being a board member of a sustainability advocacy group that publicly challenges the client's sustainability targets or practices.

Conflict Identification

General

….

SECTION 320
PROFESSIONAL APPOINTMENTS

….

Requirements and Application Material

Client and Engagement Acceptance

General

320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behavior.

320.3 A2 Factors that are relevant in evaluating the level of such a threat include:

- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
- The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
  - The nature of the client's business;
  - The complexity of its operations;
  - The quantitative and qualitative characteristics of the client's value chain, such as customers and suppliers, where applicable;
  - The requirements of the engagement; and
  - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- The level of fees and the extent to which they have regard to the resources required, taking into account the professional accountant's commercial and market priorities.

320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

….

Client and Engagement Continuance

R320.9 For a recurring client engagement, a professional accountant shall periodically review whether to continue with the engagement.

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the professional accountant to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management, ~~or~~ balance sheet valuations or sustainability reporting.

Using the Work of an Expert [Placeholder for changes by Use of Experts TF – See Agenda Item 7]

….

Using the Output of Technology

….

Other Considerations [Placeholder for changes by Use of Experts TF – See Agenda Item 7]

….

SECTION 321

SECOND OPINIONS

….

SECTION 325

OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

….

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

….

Contingent Fees

330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis or metrics for determining the fee.
- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the professional accountant.
- Obtaining an advance written agreement with the client on the basis of remuneration.

….

SECTION 340

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

….

SECTION 350

CUSTODY OF CLIENT ASSETS

….

SECTION 360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

360.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

360.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts, impacts and disclosures in the client's financial statements or sustainability information; and

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts, impacts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations

360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:

(a) To comply with the principles of integrity and professional behavior;

(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) Deter the commission of the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(a) A client;

(b) Those charged with governance of a client;

(c) Management of a client; or

(d) Other individuals working for or under the direction of a client.

360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.

- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R360.6 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

(a) Any requirement to report the matter to an appropriate authority; and

(b) Any prohibition on alerting the client.

….

Audits of Financial Statements

….

360.18 A1 The purpose of the communication is to enable those responsible for audit work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing audit work at the components, legal entities or business units.

WS2 proposes to add the following requirement and application material (paragraphs R360.18a to 360.18a A2) for the auditor to consider whether to communicate NOCLAR or suspected NOCLAR to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that meets the scope in the independence requirements.

The inclusion of this section is based on extant paragraphs R360.33 to 360.35 A1 and corresponds to a situation under paragraph 114.1 A1 (c) (iv) where the practitioner might be required to disclose confidential information or when such disclosure might be appropriate.

This creates equivalence to the proposed revision in Part 5 requiring the sustainability assurance practitioner to consider whether to communicate with the auditor, as both engagements are considered to have the same public interest.

The factors relevant to considering the communication in paragraph 360.18a A1 are based on extant paragraph 360.34 A1. An additional factor regarding communication within the firm/network firm has been added to paragraph 360.18a A1. Further, the final bullet point (from paragraph 360.34 A1) has not been included as it might not be reasonable to expect an auditor to recognize the materiality of a NOCLAR situation from a sustainability perspective, especially if the auditor is not involved in sustainability reporting and assurance.

Refer Agenda Items 4-C and 4-D for a detailed explanation of the proposed revisions.

Communicating the Matter to the Client's Sustainability Assurance Practitioner

R360.18a The professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that meets the scope set out in paragraph [placeholder], if any.

Relevant Factors to Consider

360.18a A1 Factors relevant to considering the communication in accordance with paragraph R360.18a include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the client's sustainability assurance practitioner about the matter.
- Whether and, if so, how the firm's or network firm's protocols or procedures address communication of non-compliance or suspected non-compliance within the firm or network firm.
- ~~The likely materiality of the matter to the audit of the client's financial statements, or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.~~

Purpose of Communication

360.18a A2 In the circumstances addressed in paragraph R360.18a, the purpose of the communication is to enable the engagement leader to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of [Part 5].

Determining Whether Further Action Is Needed

R360.19 The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

….

Professional Services Other than Audits of Financial Statements

….

WS2 proposes not to extend the requirements and application material in paragraphs R360.31 to 360.35 A1 to the client's sustainability assurance practitioner performing a sustainability assurance engagement that meets the scope in the independence requirements. Refer to Agenda Items 4-C and 4-D for a detailed explanation.

Communicating the Matter to the Entity's External Auditor

R360.31 If the professional accountant is performing a non-audit service for:

(a) An audit client of the firm; or

(b) A component of an audit client of the firm,

the accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

R360.32 If the professional accountant is performing a non-audit service for:

(a) An audit client of a network firm; or

(b) A component of an audit client of a network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

R360.33 If the professional accountant is performing a non-audit service for a client that is not:

(a) An audit client of the firm or a network firm; or

(b) A component of an audit client of the firm or a network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.

Relevant Factors to Consider

360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.

- The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.

Purpose of Communication

360.35 A1 In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section.

….