

Meeting: IESBA
Meeting Location: New York and Virtual
Meeting Date: December 4-8, 2023

Agenda Item 5.2

Sustainability – Ethics Considerations – Work Stream (WS) 2

Objectives of Agenda Item

1. To consider, with a view to approving for exposure, proposed revisions to the Code relating to ethics standards for sustainability reporting and assurance.
2. To consider and provide feedback to the WS2’s preliminary list of topics and questions to be included the Sustainability explanatory memorandum (EM).

WS2 welcomes any advance comments and drafting suggestions on the proposed ethics standards for sustainability assurance (Sections 5100 to 5380) in **Agenda Item 5-A**, the relevant proposed definitions in the Glossary in **Agenda Item 5-B**, the consequential and conforming amendments to Parts 1 to 3 of the extant Code in **Agenda Item 5-C**, and the proposed revisions to Parts 1 to 3 of the Code to reflect sustainability reporting considerations for professional accountants (PAs) in **Agenda Item 5-D**.

Please email comments to lauraleal@ethicsboard.org and jonreid@ethicsboard.org by **November 30, 2023**.

WS2 Composition

3. Members:

- Christelle Martin, Chair, IESBA Member
- Vania Borgerth, IESBA Member
- Richard Huesken, IESBA Member
- Sung-Nam Kim, IESBA Member

Supported by:

- Chris Twagirimana, IESBA Technical Advisor
- Kristen Wydell, IESBA Technical Advisor

Activities Since September 2023

4. After the September 2023 IESBA and Consultative Advisory Group (CAG) meetings, WS2 circulated the September version of the draft ethics standards to the Sustainability Reference Group (SRG) and asked for their comments.
5. Informed by the previous discussions with the IESBA and stakeholders (including SRG members), WS2 met in-person and virtually in October/November 2023 to develop the draft ethics standards in

the new proposed Part 5 (sustainability assurance) and proposed revisions to Parts 1 to 3 of the Code (sustainability reporting).

6. In October 2023, WS2 sought advanced feedback from IESBA members on selected draft proposed texts. The WS2 has considered the feedback received in developing its final draft proposed texts set out in **Agenda Items 5-A to 5-D** and will distribute to the Board a compilation of its responses to the substantive advanced comments received ahead of the December 2023 meeting.
7. In early November, IESBA and IAASB Staff had a coordination meeting where:
 - IESBA Staff provided an update on the proposals in the ethics and independence standards for sustainability assurance engagements in Part 5 that are subject to coordination between the two Boards;
 - IAASB Staff briefed IESBA Staff about the key feedback received at the IAASB's global roundtables regarding the IAASB's ED of ISSA 5000.¹
8. On November 27, the Sustainability Task Force will hold an informational preparatory session for IESBA members ahead of the December 2023 meeting.

Matters for IESBA Consideration

Ethics Standards for Sustainability Assurance

9. **Agenda Item 5-A** includes the proposed International Ethics Standards for Sustainability Assurance (Including International Independence Standards) (IESSA) for IESBA's second read.
10. The document is a joint WS1 and WS2 paper that includes the full set of proposed ethics and independence standards in the new Part 5. The document is in mark-up from the 2024 version of the Code, which incorporates the latest revisions to the Code.
11. For ease of reference, the proposed changes since the September 2023 IESBA meeting are highlighted in yellow. The grey boxes in the document provide explanations for the changes made to the September 2023 version.
12. The key revisions to the first read of the WS2's proposed ethics standards considered at the September 2023 IESBA meeting are to:
 - Introductory paragraphs 5100.4a to 5100.4d;
 - Paragraph 5320.11 A3 addressing second opinions;
 - Section 5350 on *Custody of Client Assets*; and
 - Section 5380 on *Tax Planning Services*.

Glossary

13. **Agenda Item 5-B** includes the proposed revisions to the Glossary. The changes are in mark-up from the 2024 version of the Code. The key changes since the September 2023 IESBA meeting are

¹ Exposure Draft, *Proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements*

highlighted in yellow. The document is a joint WS1 and WS2 paper that includes proposals from both workstreams.

Proposed Consequential and Conforming Amendments to the Extant Code

14. **Agenda Item 5-C** includes the draft consequential and conforming amendments to Parts 1 to 4-B of the Code resulting from the draft IESSA in Part 5. The document is a joint WS1 and WS2 paper that includes proposals from both workstreams.

Ethics Provisions for Sustainability Reporting

15. **Agenda Item 5-D** includes the proposed revisions by WS2 to Parts 1 to 3 of the extant Code to reflect considerations relating to reporting sustainability information by PAs. The document is in mark-up from the 2024 version of the Code, which incorporates the latest revisions to the Code.
16. For ease of reference, the proposed changes since the September 2023 IESBA meeting are highlighted in yellow. The grey and side comment boxes in the document provide explanations for the changes made to the September 2023 version.
17. The key revisions to the first read of the WS2's proposed text considered at the September 2023 meeting are to the proposed examples in Section 220 on *Preparation and Presentation of Information*.

Other Information

18. **Agenda Items 5-A to 5-D** incorporate:
 - IESBA members' comments from September 2023 and the advanced comments received in October 2023; and
 - The feedback from the IESBA SRG received after the advanced consultation with the IESBA on the example of a self-interest threat in paragraph 5340.11 A3.
19. **Agenda Item 5-E** includes WS1 and WS2's report-back on the September 2023 Consultative Advisory Group (CAG) meeting for the IESBA's reference.
20. The **Appendix** includes a preliminary list of proposed topics and questions to be included in the Sustainability EM on the proposed ethics standards for sustainability assurance and reporting (including definitions), where stakeholders' input would be especially useful. WS2 notes that the Sustainability EM will provide a detailed explanation of the topics or issues and the IESBA's proposals. The questions will include references to the relevant sections in the Sustainability EM. The full list of questions in the EM will also include the independence-related questions as well as questions regarding common issues.
21. In September 2023, the IESBA agreed to issue a public statement concurrently with the release of the Sustainability exposure draft (ED) emphasizing the importance of ethics across the financial and non-financial reporting ecosystem and that the Code should be consistently applied by all preparers of financial and non-financial information. WS2 plans to draft this public statement in tandem with the draft Sustainability EM to ensure the consistency of the messaging in both documents, taking into account the final Strategy and Work Plan 2024-2027 due to be approved by the IESBA in December 2023.

Approach to Session

22. During the December 2023 meeting, the WS2 Chair and IESBA Staff will walk IESBA members through the proposed changes to the draft ethics standards section by section and explain the key proposed revisions since the September 2023 meeting.

Action Requested

23. IESBA members are asked to:
- (a) Consider and provide feedback and drafting suggestions to the proposed new provisions and revisions to the Code, including the consequential and conforming amendments, set out in **Agenda Items 5-A to 5-D**;
 - (b) Consider and provide feedback to WS2's preliminary list of proposed topics and questions for the Sustainability EM set out in the Appendix; and
 - (c) Subject to the Board discussion, approve the proposed texts for exposure.

Next Steps

24. Subject to the IESBA's approval of the Sustainability ED, the Task Force anticipates that the ED will be issued for public comment by the end of January 2024. The Task Force recommends a 100-day comment period, allowing time for a preliminary analysis of the responses before the June 2024 IESBA meeting.
25. On December 12, 2023, the IESBA Program and Senior Director will provide an update on the IESBA's deliberations on the Sustainability and Use of Experts projects at the IAASB Board meeting.
26. At its March 2024 meeting, the IESBA will receive an update from IAASB representatives on the significant comments received on the IAASB's ED of ISSA 5000.
27. The IESBA will receive a high-level update on comments received on certain specific questions in the ED at the June 2024 meeting, with a full review of the ED comments and the first read of the proposed final standards post-exposure at the September 2024 meeting.

Material Presented

For Discussion

Agenda Item 5-A	Proposed Ethics and Independence Standards for Sustainability Assurance Engagements in Part 5 (Mark-up) (WS1 and WS2)
Agenda Item 5-B	Proposed Revised Glossary (Mark-Up) (WS1 and WS2)
Agenda Item 5-C	Proposed Consequential and Conforming Amendments (Mark-up) (WS1 and WS2)
Agenda Item 5-D	Proposed Revisions to Parts 1 to 3 of the Code (Mark-Up) (WS2)

For Reference

Agenda Item 5-E

Report-Back on the September 2023 CAG meeting (WS1 and
WS2)

Indicative List of Topics and Questions to Include in the Sustainability Explanatory Memorandum (EM) – WS2

Note 1: This is a preliminary indicative list of topics and questions to be included in the Sustainability EM from the perspective of Work Stream 2’s (WS2) scope of work (ethics for sustainability assurance and reporting). The table below proposes WS2-related topics (covering assurance, definitions and reporting) with related questions. The wording of the questions is not final and will be further revised following the December 2023 IESBA meeting.

Note 2: The Task Force suggests the Sustainability EM for the Sustainability exposure draft (ED) includes a maximum of 15 topics for the assurance standards (covering ethics and independence matters) with the possibility of sub-questions under each topic.

Note 3: Whether to have one or two EDs/EMs (IESSA² and changes to the extant Code to reflect sustainability reporting considerations for professional accountants (PAs)) will be discussed with IESBA at the December 2023 meeting. It is worth noting, in this regard, that the glossary applies to the whole Code and some definitions (e.g., “sustainability information” and “professional activity”) are relevant for both assurance and reporting. This could favor a single ED (which could be clearly divided into chapters³, making it easier for respondents to differentiate between the different components of the project and only respond to those that are relevant to them).

Note 4: This list does not include general, overarching questions such as translations; effective date; etc.

Sustainability Assurance Standards – IESSA (New Part 5) & Consequential and Conforming Amendments (Chapters 1 & 3 of the ED)

#	TOPIC	FOCUS OF QUESTION
1	Background and objectives of the sustainability project:	✓ Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the standard-setting

² I.e., the International Ethics Standards for Sustainability Assurance (including International Independence Standards) in new Part 5 of the Code.

³ Suggested chapters as follows, focusing first on the assurance standards (ordered from most substantive to least) – given those aim to respond to an international regulatory call – and then the reporting standards:

- Chapter 1: New Part 5 (IESSA)
- Chapter 2: Revised Glossary
- Chapter 3: Consequential and Conforming Amendments Resulting from IESSA
- Chapter 4: Revisions to Parts 1 to 3 of the Extant Code to Reflect Sustainability Reporting Considerations for PAs

	<ul style="list-style-type: none"> • IOSCO call, including: <ul style="list-style-type: none"> ○ Profession-agnostic standards = focus on the service, not the professionals performing it ○ Framework-neutral standards • Responsiveness of the standards to the public interest, considering the PIF characteristics • Development of guidance for those not familiar with the Code to assist with the application of Part 5 	<p>priorities identified by IOSCO and the PIF qualitative characteristics? If not, why not?</p> <p>✓ Do you agree that the proposals in Chapter 1 of the ED, particularly the examples, are profession-agnostic and framework-neutral? If not, why not?</p> <p><u>Note: these questions could cover both ethics and independence.</u></p>
2.1	<p>Scope of ethics standards (all SAEs + other services for the sustainability assurance client)</p> <p>& Explain the encouragement for those who are not PAs to use the rest of the Code</p>	<p>✓ Do you agree with the proposal that the ethics standards in Chapter 1 of the ED cover all sustainability assurance engagements as well as other services provided to the sustainability assurance client? If not, why not?</p> <p>✓ Is the proposed scope of the ethics standards in Chapter 1 of the ED clear? If not, how could the scope be made clearer?</p> <p><u>Note: different explanations for ethics and independence scope, although both scopes could be treated in the same section.</u></p>
2.2	Scope of independence standards [WS1]	✓ [WS1]
3	<p>Structure of Part 5:</p> <ol style="list-style-type: none"> a. Equivalence with Parts 1, 3 and 4-A of the extant Code b. Explain why not full equivalence with Part 2 + cross reference to #5 (see below) c. Single version of the truth in terms of language, for interpretation and enforceability d. Explain numbering and why some paragraphs were left blank (TBC) 	<p>✓ Do you agree that Chapter 1 of the ED contains standards for sustainability assurance that are equivalent to the ethics and independence standards for audit engagements?</p> <p><u>Note: this question could cover both ethics and independence.</u></p>
4	<p>Other introductory provisions, e.g.,</p> <ul style="list-style-type: none"> • Need for SAPs to have adequate skills/expertise (i.e., be professionals although not necessarily belong to a (regulated) profession) 	[No specific question needed]

	<ul style="list-style-type: none"> Structure of the introduction of Section 5100 	
5	<ul style="list-style-type: none"> Why Part 5 includes an equivalent Section 270 Why Part 5 does not include an equivalent Section 321 & (TBC – in case the IESBA decides so) Why Part 5 includes a paragraph on second opinions 	<ul style="list-style-type: none"> ✓ Do you support including Section 5270 in Chapter 1 of the ED? If not, why not? ✓ Do you support not including an equivalent Section 321 in Chapter 1 of the ED? If not, why not? OR (TBC) Do you support the approach of not including an equivalent Section 321 in Chapter 1 of the ED but addressing second opinions in paragraph 5320.11 A3? If not, why not?
6	<p>NOCLAR</p> <ul style="list-style-type: none"> Scope in Part 5: <ul style="list-style-type: none"> Laws and regulations only, not voluntary commitments/representations Exclusion of the value chain (per the structure of extant NOCLAR) Communications between Auditor-SAP and vice-versa (Parts 3 and 5) Changes proposed in extant Part 2 	<ul style="list-style-type: none"> ✓ Do you support the requirements added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the SAP to consider communicating NOCLAR/suspected NOCLAR to each other? If not, why not? ✓ Do you support mirroring the communication provisions from extant paragraphs R360.31 to R360.35 A1 in Section 5360 (paragraphs R5360.31 to 5360.35 A1 in Chapter 1 of the ED)? If not, why not? ✓ Do you support expanding the scope of the extant requirement for PAIBs (Chapter 3 of the ED)? If not, why not?
7	Other matters	<ul style="list-style-type: none"> ✓ Do you agree that the examples in Chapter 1 of the ED are clear and adequate from a sustainability assurance perspective? If not, which ones and what suggestions do you have to make them clearer or more adequate? ✓ Are there any other matters you would like to raise in relation to the remaining provisions in Chapters 1 and 3 of the ED?

Revised Glossary (Chapter 2 of the ED)

#	TOPIC	QUESTION
1	<p>Professional activity</p> <ul style="list-style-type: none"> Explain proposed changes, acknowledging this is a 	[No specific question]

	definition used by PAOs for training and qualification purposes	
2	Sustainability information <ul style="list-style-type: none"> • Explain the IESBA draft (part definition + part description) • Explain alignment with ISSA 5000 definitions (sustainability information and sustainability matters) 	✓ Do you support the definition of “sustainability information” in Chapter 2 of the ED taking into account the definitions of “sustainability matters” and “sustainability information” in IAASB’s ED of ISSA 5000? If not, why not?
3	Other matters	✓ Are there any other matters you would like to raise in relation to the remaining definitions in the glossary (see Chapter 2 of the ED)? <i>Note: this question could cover both WS1 and WS2 definitions.</i>

Revisions to Parts 1 to 3 of the Extant Code to Reflect Sustainability Reporting Considerations for PAs (Chapter 4 of the ED)

#	TOPIC	QUESTION
1	Scope of the project on the reporting side (i.e., revisions to the extant Code at the moment, thus covering PAs only) & Link to SWP: strategic focus on expanding the scope of the Code + phased approach of starting with the development of standards for all preparers of sustainability information	✓ Do you have any views on how IESBA could approach its new work stream on expanding the scope of the Code to all preparers of sustainability information?
2	Responsiveness of the standards to the public interest, considering the PIF characteristics	✓ Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the PIF qualitative characteristics? If not, why not?
3	Explain the proposed changes to extant Section 220 including the addition of examples to cover misleading sustainability reporting, value chain considerations and forward-looking information	✓ Do you agree that the proposed revisions to extant Section 220 in Chapter 4 of the ED adequately incorporate sustainability reporting considerations? If not, why not and what suggestions do you have?
4	Other matters	✓ Are there any other matters you would like to raise in relation to changes made to extant Parts 1 to 3 of the Code (Chapter 4 of the ED) to reflect sustainability reporting considerations for PAs?