Final Minutes of the 79th Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS
Held on November 1, 2022 in Virtual Format

Voting Members

Present: Gabriela Figueiredo Dias (Chair)  Keith Billing (Mr. Babington)
Caroline Lee (Deputy Chair)  David Clark (Mr. Huesken)
Saadiya Adam  Gregory Driscoll (Ms. Lee)
Mark Babington  Jens Engelhardt (Prof. Poll)
Vania Borgerth  Laura Friedrich (Mr. Friedrich)
Sanjiv Chaudhary  Ellen Goria (Mr. Mintzer)
Laurie Endsley  Marta Kramerius (Mr. Nisoli)
Brian Friedrich  Andrew Pinkney (Ms. Endsley)
Hironori Fukukawa  Kemisha Soni (Mr. Chaudhary)
Richard Huesken  Bruno Tesnière (Ms. Martin)
Sung-Nam Kim  Chris Twagirimana (Mr. Muvunyi)
Christelle Martin  Kristen Wydell (Mr. Wijesinghe)
Andrew Mintzer  Jeanne Viljoen (Ms. Adam)
Felicien Muvunyi  Masahiro Yamada (Mr. Fukukawa)
Luigi Nisoli  Xiaoye Yuan (Ms. Wu)
Jens Poll
Channa Wijesinghe
Yaoshu Wu

Apologies:  Ki-Tae Park (Mr. Kim)

Non-Voting Observers

Present: Gaylen Hansen, IESBA Consultative Advisory Group (CAG) Chair, and Jumpei Kato, Japanese Financial Services Agency (FSA)

Public Interest Oversight Board (PIOB) Observer

Present: Tshego Modise

IESBA Staff

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Program and Senior Director), Diane Jules (Director), Geoffrey Kwan (Director), Laura Leal, Kam Leung, Carla Vijian, Szilvia Sramko, Shizuka Kaneda, Astu Tilahun, Diana Vasquez
1. Opening Remarks

WELCOME AND INTRODUCTIONS

Ms. Dias welcomed all participants and public observers to the meeting.

Ms. Dias acknowledged this is a good opportunity to reconvene the September discussions on the sustainability project. She praised the Sustainability Working Group on the remarkable progress they made since the September board meeting. Ms. Dias then recognized that despite the challenges of processing the new information and options suggested by the Working Group back in September, the Board succeeded in providing guidance to the Working Group. She requested for the Board to stay open minded and flexible during today’s discussion and proceeded to invite Mr. Babington, Chair of the Sustainability Working Group to share the Working Group’s findings.

2. Sustainability

Ms. Dias introduced the session, setting the context and outlining the risks and considerations for the Board to take into account in addressing the need and stakeholder expectations for global ethics, including independence, standards to support transparent, relevant and trustworthy sustainability reporting. She highlighted that the Board’s focus should be on developing high-quality standards that can be recognized, accepted, adopted, and implemented in the widest possible way. She shared that her vision is for the IESBA’s standards to be part of the future standards infrastructure for sustainability reporting and assurance, alongside the standards of the International Sustainability Standards Board (ISSB) and the International Auditing and Assurance Standards Board (IAASB).

Mr. Babington, Chair of the Sustainability Working Group, then briefed the Board on the activities of the Working Group since September 2022. He provided an overview of the Task Force’s thinking regarding potential approaches for developing profession-agnostic ethics, including independence, standards for sustainability assurance engagements. Following the IESBA’s indicative direction in September 2022, the Working Group had developed illustrations of four potential options for the location and packaging of the standards (“pathway”) for the IESBA’s consideration.

FLEXIBLE APPROACH

Mr. Babington expressed the view that the Board need not make the strategic and technical decisions concerning the approach to drafting the standards for sustainability assurance engagements at the same time. He highlighted that the key challenge was that there was still much to learn about how best to address the call from the International Organization of Securities Commissions (IOSCO) for profession-agnostic standards for sustainability assurance. Accordingly, he sought the Board’s support for the technical work to proceed and for the strategic decision on the final pathway to be deferred until next year when sufficient feedback has been obtained from stakeholders to inform that decision.

Board members generally expressed support for the IESBA to make a start on developing the technical provisions before making a final decision on the pathway for the standards applicable to sustainability assurance engagements. Given the rapidly changing landscape, there was agreement that the IESBA should stay flexible and make the pathway decision once the Board has more visibility in terms of expectations from the stakeholders, including professional accountants (PAs) and other service providers who are not PAs.

Among other matters, the following were raised:

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1 See paragraph 17 of Agenda Item 1 for the 4 potential options.
• It was suggested that the Working Group provide a roadmap for the way forward, including the activities to inform the strategic decision and the most critical technical issues to address.

• The strategic decision on the pathway should be informed by how jurisdictions will adopt the ethics, including independence, standards for PAs and non-PAs in relation to sustainability assurance.

• It would be important to obtain input from non-PA service providers who are engaged in performing sustainability assurance engagements, including how they address ethical challenges.

• Sustainability reporting and assurance are novel and complex areas. Accordingly, the Board needs to stay flexible and agile to best fulfill the needs and expectations.

• While PAs should find the new standards relatively accessible given their familiarity with the Code, the challenge would be how best to accommodate the non-PAs in a practicable way.

• How the Board starts the technical work could influence the later strategic decision. The direction could change depending on the nature of the Board’s discussions and the feedback from stakeholders, especially non-PAs like engineering and consulting firms who might follow these standards. Accordingly, the Board should be prepared to pivot quickly.

Mr. Kato agreed that flexibility would be important as the landscape of sustainability reporting and assurance is changing very rapidly, and standards that apply to all service providers would serve best the public interest.

OUTREACH TO STAKEHOLDERS

IESBA members reaffirmed the aim for the IESBA to develop profession-agnostic standards applicable to sustainability assurance that would create a level playing field for all service providers.

To develop profession-agnostic standards, a few Board members emphasized the importance of engaging with a wide range of stakeholders, including service providers who are non-PAs. It was suggested that the future Sustainability Task Force gather an understanding of the ethics standards non-PAs are using for such assurance engagements.

A few IESBA members also pointed out the need to understand the expectations of the regulatory community and others who are responsible for regulating and enforcing the standards.

Ms. Dias and Mr. Siong agreed that regardless of the pathway the IESBA takes, the Board would need to test out the options with stakeholders, especially non-PAs, and be flexible and open to hearing the feedback.

POTENTIAL PATHWAYS TO DEVELOPING PROFESSION-AGNOSTIC STANDARDS FOR SUSTAINABILITY ASSURANCE

In relation to the integrated approach the Working Group proposed in the options presented, Mr. Siong noted that it would be important for the Board to consider the building-blocks design and architecture of the Code when developing the profession-agnostic standards for sustainability assurance. He indicated that there would be a “conundrum” if only Part 4A of the Code would apply to assurance providers who are non-PAs. He highlighted that there would be no requirements applicable to non-PAs in Parts 1 to 3, in which the building blocks reside, and that the options presented would instead come with an external guide for the non-PAs on how they should interpret Part 1 to 3 to their circumstances.

Mr. Siong pointed out that this approach could raise some practical issues, for example, regarding the enforceability of the standards on non-PAs, and whether jurisdictions would take up the guide when adopting or using the IESBA’s standards as a basis for their national sustainability-related ethics, including
independence, standards. He indicated that there is a potential fifth option (“Option 5”) that could address such issues, i.e., a standalone set of standards tailored to sustainability assurance engagements that would be applicable to both PAs and non-PAs. He noted that this approach would align with the IAASB’s approach to developing its sustainability assurance standard, consistent with the IAASB’s general assurance standard ISAE 3000 (Revised)\(^2\) which is already profession-agnostic. He explained that this approach would be grounded in the conceptual foundation of the Code and better serve to achieve a level playing field for PAs and non-PAs.

Ms. Dias asked the Board to carefully consider the consequences of taking an integrated approach, noting that the evidence already indicates that non-PAs already carry out the majority of the sustainability assurance engagements around the world. She explained that the IESBA’s sustainability standards will be subject to adoption and implementation by local jurisdictions and international regulators, which will inevitably define the width of the application of the standards. She noted that the Board should aim to have the same level of acceptance and adoption of its standards as the ISSB and the IAASB and be recognized by the highest number of assurance providers, not only PAs. To achieve this goal, she agreed that the Board needs to engage in discussion and coordination with a wide range of professionals who provide sustainability assurance.

IESBA members then debated the options presented by the Working Group.

A Board member expressed support for Option 1 on the ground that the IESBA should not do anything that would disrupt the current framework for auditors. He noted that having two separate sets of standards or handbooks would create a maintenance overhead. He wondered whether the Board might undertake an exercise to develop a taxonomy that would extract the parts of the Code applicable to all assurance providers. He added that it would be important to understand how the Code is used by non-PAs around the world and enforced. Mr. Babington agreed with the comment on the work required to update two separate sets of standards. He also noted that it would be important to avoid any sort of regulatory arbitrage between sets of standards.

Many Board members believed that Option 4 would provide the clearest pathway. Among other matters, they raised the following:

- This option would yield the most flexibility as it would leave the option of a separate set of standards for all sustainability assurance providers on the table. It would also provide the flexibility for the Board to cater for new types of assurance engagements, such as assurance on Artificial Intelligence (AI) systems. It was also suggested that the Board consider following the IAASB’s “playbook” as it has different types of standards, such as the International Standards on Auditing (ISAs) for audits, the International Standards on Review Engagements (ISREs) for reviews, and the ISAEs for other assurance engagements. These different sets of standards enable the IAASB to respond quickly to the needs with respect to different types of assurance engagements.

- Having a separate set of requirements for sustainability assurance, as presented by Option 4, would be easier for non-PAs to navigate. It was also noted that this option would be more aligned with the approach the IAASB is taking to developing its new sustainability standard, given that it has decided to develop a separate standard, International Standard on Sustainability Assurance (ISSA) 5000, instead of revising its current assurance standards such as ISAE 3000 (Revised) and ISAE 3410.\(^3\)

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\(^2\) International Standard on Assurance Engagement (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

\(^3\) ISAE 3410, Assurance Engagements on Greenhouse Gas Statements
The recent developments in corporate reporting are heading towards integrated reporting. The Code’s independence standards need to be applicable to auditors carrying out assurance not only on financial statements but also on sustainability information. That would be the long-term vision. In the short term, the IESBA needs to provide standards for sustainability assurance providers who are non-PAs, including how they would apply the rest of the Code outside Part 4A. In this respect, Option 4 could be a starting point but not the end game.

The integrated approach might result in too much complexity. In this regard, it was noted that if there are too many changes to Part 4A, this would have the potential to create unintended consequences for audits and reviews.

User-friendliness would be key, especially for the non-PAs, and Options 4 or 5 would better meet this objective. In this regard, there was a concern that non-PAs would find it challenging to navigate the Code if they had to apply it in undertaking sustainability assurance engagements.

Mr. Babington expressed the view that the IESBA should go forward with two options to minimize the risk that it would go with one option when in fact, the other would be the one needed. He agreed that the understandability of the standards would be key. He asked all Board members to consider how the adoption and endorsement of the standards would work in their jurisdictions.

In suggesting that the Board consider taking both Options 3 and 4 forward, another Board member noted that there are already providers in New Zealand that have been established for a long time in the sustainability assurance market. The Board member emphasized the need to consider the terminology in the standards carefully as non-PAs are using other terminology, such as consulting services instead of non-assurance services.

Mr. Hansen noted that IESBA members’ comments focused on the providers as opposed to recipients. He underlined that users expect the same level of independence and ethics from all assurance providers. From a regulatory perspective, he expressed a preference for a single set of standards. He acknowledged that applying the Code would be complicated for assurance providers who are not PAs, but he was of the view that they need to rise up to these requirements. He added that he would preserve Part 4A to maintain the integrity of the Code with respect to audits of financial statements.

Mr. Kato was of the view that Option 4 provided the clearest solution from the perspective of clarification of independence provisions related to sustainability assurance and the future application of the Code in each jurisdiction. However, he added that an accelerated response is currently very important for the public interest. From this perspective, he believed that Option 2 would be the second best as the proposed guide for non-PAs could compensate for the disadvantages of that option.

Mr. Babington agreed that considerations of users’ needs and how best to meet their interests should drive the discussions and decisions around the pathway to take. He also highlighted that the expectations and decisions concerning sustainability assurance would vary from jurisdiction to jurisdiction. He believed that the Working Group’s proposals could accommodate and respond to the challenges of different interests and views. However, he recognized that the IESBA needs to reach out to a range of stakeholders and hear all their feedback.

PIOB OBSERVER’S REMARKS

Ms. Modise noted that the PIOB is supportive of the IESBA’s sustainability initiative. She especially appreciated the Board’s discussion and how the Board applied its mind to the issues at hand. She highlighted the importance of having regard to the principles in the Public Interest Framework (PIF),
especially regarding timeliness, consistency, relevance, adoptability and implementability. She indicated that the PIF should keep the Board’s direction in check.

She concurred with the importance of being inclusive of the non-PAs in future outreach in developing the profession-agnostic standards. She concluded that doing so would lead to an outcome that will work for everyone and in the public interest.

3. Closing Remarks

Ms. Dias thanked Ms. Modise for her remarks, noting that the IESBA will remain fully accountable to the PIOB and transparent with respect to what it does as well as the rationale behind its decision-making.

Ms. Dias then thanked Mr. Babington for his presentation and for his explanations and responses to the Board’s questions. She acknowledged how the different perspectives and opinions around the table can be challenging but emphasized the important opportunity being presented to the IESBA, which she believed the Board must seize and get right at its first attempt. She reminded the Board of the need to stay open-minded and flexible while reflecting on the concerns and perspectives discussed, if the Board is to deliver a standard that meets the public interest. She noted that the Board is in agreement on the end goal of developing high-quality standards that apply to all the assurance providers while protecting investors and other stakeholders, and mitigating the issue of greenwashing.

Ms. Dias also recognized the need for regulators and non-PA service providers to have an understanding of the IESBA’s work. She emphasized that it is essential to preserve the existing standards for PAs, but that it is also important to have standards that non-PAs can accept.

Lastly, Ms. Dias reiterated Mr. Babington’s message that the Working Group will consider the direction given by the Board, from both the technical and strategic perspectives. She hoped that the discussion would translate into a very strong and consensual project plan that will be presented and approved at the November-December board meeting.

In closing, Ms. Dias praised the Board for a rich discussion. She then closed the meeting.

4. Next Meeting

The next Board meeting is scheduled for:

- November 29 – December 2, 2022, to be held in person in New York, USA; and
- December 7 and 15 in virtual format.