Sustainability

Mark Babington, IESBA Member and Working Group Chair

IESBA Virtual Meeting

November 1, 2022
Objectives

• To agree to an overall approach for developing profession agnostic ethics and independence standards for sustainability assurance engagements

• To consider other matters that are relevant in developing sustainability-related revisions to the Code, including:
  – Matters relating to revising Parts 1-3 of the Code to address sustainability reporting
  – Resources and timeline
Key Developments since September Meeting

- **Sept 23**: IESBA CAG Meeting
- **Sept-Oct**: Targeted Outreach incl. with GRI, ICGN, IOSCO, PAIB Advisory Group, XRB
- **Oct 6**: PIOB Public Interest Workshop
- **Oct 13**: FSB progress report on roadmap issued
- **Mid-Oct**: EU Jurisdiction-level Outreach (Brussels, Paris)
- **Oct 24**: IESBA Staff publication on Greenwashing issued
Recap: Current Thinking

- Sustainability information is of heightened public interest → Used for capital allocation decisions
  - Sustainability assurance practitioners should be subject to the same ethics + independence standards as auditors of f/s when a general-purpose reporting framework is used
  - Same ethics + independence standards should apply regardless of who does the work

- Calls for profession agnostic standards for sustainability assurance
  - Map out and engage non-PAs to understand ethics and independence standards being used
  - Leverage extant IESBA Code, but also identify and address gaps
  - Determine how best to package (and draft) sustainability-related revisions to be profession agnostic

- Timely stakeholder engagement critical (esp. with IOSCO, IAASB, ISSB)
  - Revised ethics + independence standards to preserve link to IAASB’s standards

- Measured approach and accelerated response necessary
# Overview of Workstream Activities

## As of Oct 2022

### 1. Independence

- Determine drafting approach + Address gaps in ethics and independence provisions
- **Activities**
  - Determine architecture for sustainability-related revisions
    - Placement of independence revisions (Part 4A/ or 4A*)
    - Criteria to explain which provisions apply (new Part 4B)
    - Consequential amendments to Part 4B
  - Adapt/ revise existing definitions (e.g., audit team, engagement team, group audit team, professional activities,...)
  - Establish definitions for sustainability-specific terms (e.g., sustainability information, sustainability assurance team, sustainability assurance leader)
  - Identify issues: What are the threats to FPs (and independence)? What are the safeguards? Conflict of interest situations? Which activities, relationships, and financial interests should be prohibited? Any unique ethics challenges for sustainability?
  - Draft guidance for non-PAs to explain how to apply the IESBA Code in sustainability assurance engagements
  - Should ethics responsibilities vary based on the PAIB’s role and seniority in employing organization?
  - Develop new PAPP section for providing services relating to sustainability reporting + sustainability assurance readiness (leverage extant Part 2)
  - Expand on ethics material re exercising discretion and professional judgment when a general-purpose framework is not used to prepare sustainability information

### 2. Sustainability Reporting

- Provide context and examples + Address gaps in ethics provisions
- **Activities**
  - Liaise with other Task Forces (and IAASB) to identify and respond to specific ethics and independence issues (i.e., Sustainability, Tax Planning, ET-GA and Technology Task Forces)

### 3. Experts

- Address issues re use of experts in sustainability reporting and assurance + Use of experts more broadly
- **Activities**
  - Develop principles-based proposed revisions taking into account topic-specific input from each Task Force (and IAASB)
  - Joint thinking/ coordination, including with IAASB/ ISSB
  - Leverage extant Code and consider standards used by non-PAs
### Four Potential Options to Consider in Developing Revisions to the Extant Code

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
<th>Option 4</th>
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<tr>
<td>Involves the use of “sustainability assurance engagements” without amending the definition of “audit” as used in Part 4A</td>
<td>Based on extant current model – the term “audit” is extended to include “sustainability assurance engagements” in addition to as well as “review” engagements.</td>
<td>Approach uses more general terms (e.g., “practitioner” and “engagement”). Proposed ET-GA revisions not yet considered; Will need to adapt/revise new definitions arising from ET-GA work.</td>
<td>Involves revisions to extant Part 4A to address independence only for “sustainability assurance engagements.” Will be positioned before Part 4B. Similar to Option 1, but without any references to “audit.”</td>
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- Retain provisions that apply to audit and review engagements
- Adapt definitions and key concepts, especially those arising from ET-GA project; Establish/tweak definitions for sustainability
- Add sustainability-specific examples and guidance
- Align to IAASB’s proposed ISSA 5000

- Delete provisions that apply to audit and review engagements
- Establish/adapt definitions for sustainability assurance
- Add sustainability-specific examples and guidance
- Align to IAASB’s ISSA 5000

Options set out profession-agnostic independence provisions to be included in Code for PAs → *Should title of Code also change?*
Input from Planning Committee

• Recognize the need to be able to *pivot* and respond to a fast-developing situation, for example:
  – Option 4 serves as starting point for drafting separate profession agnostic independence provisions; but is there is a need to also revise ethics standards
  – Consider the relevance of the entire Code, including Parts 1 to 3 to decide on what can be leveraged for sustainability assurance; outline for Guidance document might be a useful starting point in deciding on key topics to be covered

• Why change the extant Code, especially since doing so might involve changes to near-final ET-GA definitions?

• Pathway to adoption by non-PAs not yet identified; jurisdiction-level action by regulators and NSS is required
  – Risk that existing users of the Code (i.e., PAs) might not find it attractive to refer to two handbooks for ethics and independence standards
  – Risk that existing jurisdictional mechanisms to adopt the Code do not apply to a second Code without legislative change

Are there unintentional consequences that might arise if IESBA moves away from having ONE Code of Ethics for PAs that can be applied in all circumstances, and for all types of engagements?
Input from Planning Committee

**A. Revisions to extant IESBA Code**

- WG recommendation based on indicative direction from IESBA
- *Involves revisions to Part 4A OR new Part 4A*
- September 2023

**B. Entirely Separate Handbook**

- Some PC members alternative proposal
- Q4 2024
- No sustainability-related changes
- Other guidance and rollout publications (?)
Matters for IESBA Consideration

1. IESBA members are asked to:
   a) Consider the options put forward, in particular those set out in *Agenda Items 1-A.1 to 1-A.4* and indicate preferred approach
   b) Note initial thinking re Project Plan and Project Timeline and provide input to WG as it develops the Sustainability Project Proposal(s)
Sustainability Project Plan and Timeline*

(For information only)

*To be discussed at Nov/Dec IESBA Meeting
Analysis of Findings/Data
- Identify ethics (and independence issues) in sustainability reporting and assurance
- Address gaps and develop workable solutions
- Identify common elements and terminology

VISION: Same ethics and independence standards for audit of financial information apply to assurance of sustainability information

GOAL: To develop ethics (and independence) standards to be used by PAs and non-PAs for sustainability assurance engagements

OVERVIEW OF STANDARD SETTING PROCESS

Outreach: Data Capture and Awareness Raising
- Explain applicability of extant IESBA Code of Ethics in sustainability reporting and assurance
- Get smart on ethics and independence standards used by non-PAs in sustainability assurance engagements
- Map and engage the key stakeholders (i.e., PAs + non-PAs) in sustainability assurance space

Development of ED(s) + Guidance for Non-PAs
- Leverage existing material in Code of Ethics for PAs and others standards used by non-PAs to develop sustainability-related provisions
- Develop new material to address gaps
- Use profession agnostic language and concepts without diluting existing standards
- Preserve existing linkage between IESBA and IAASB standards
- Address any gaps re ethics in sustainability reporting

Global Consultation
- Roundtables
- Webinars
- Focus Groups (e.g., Regulators, PAIBs, non-PAs)

Finalize standard(s)
- Analyze comments
- Draft revisions to ED
- Develop basis for conclusions

OUTPUT

(WG Recommendation)
Sustainability-related Revisions to extant IESBA Code of Ethics for PAs (incl. IIS)
+
Guidance Document for non-PAs
(proposal may be further revised to reflect stakeholder input from global round tables)
Project Timeline

2022
- Q1: IOSCO RT Feb 2022
- Q2: IESBA/CAG Meeting Mar 2022
- Q3: IESBA Meetings June 2022
- Q4: IESBA/CAG Meetings Sept 2022

2023
- Q1: IESBA Meetings June 2023
- Q2: IESBA CAG Meeting Mar 6-8, 2023 (Input on issues)
- Q3: Draft ED(s)
- Q4: IOSCO RT Dec 14, 2022

Outreach + Awareness Raising + Data Input
- IOSCO RT Feb 2022
- IESBA/CAG Meetings Mar 6-8, 2023 (Input on issues)

Analysis of Findings/Data
- IOSCO RT Feb 2022
- IESBA CAG Meeting Mar 6-8, 2023 (Input on issues)
- IESBA Meeting Mar 13-17, 2023 (Issues and Proposals)

Draft ED(s)
- IESBA Meeting June 13-17, 2023 (First read draft ED)
- NSS Meeting May 77, 2023 (Jurisdiction input)
- CAG Meeting Sept 11-13, 2023 (Input on draft ED)

Consultation
- IESBA Meeting Sept 18-22, 2023 (in person) (Second Read)

Final Standards
- IESBA/CAG Meetings Sept 2024 (Approve final standards)

90-day exposure period (Nov 2022-Jan 2023)
- Host RTs + Focus Groups Meetings Dec 77, 2023 (Virtual + in-person)

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Ref: Overview of Parts and Sections in Code

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1. This document is prepared by the staff of the IESBA and illustrates the sections of the Code that were revised since the 2021 edition:
   - Includes the fee-related revisions to the Code.
   - Includes the NAS-related revisions to the Code.
   - Includes the revisions to address objectivity of an engagement quality reviewer and other appropriate reviewers.
   - Includes conforming amendments to the Code arising from the IASBA's quality management project.
Follow at: www.ethicsboard.org/focus-areas/sustainability-reporting-and-assurance