IESBA Sustainability Working Group — Terms of Reference

A. Background

1. In recent years, investors have been increasingly focused on information that provides a better understanding of a company’s long-term value creation and enables them to allocate capital to businesses perceived as more sustainable. As a response, financial markets have seen accelerated growth in the disclosure of sustainability information. Along with the market demand for more sustainability data, there has been an increasing call for assurance to be provided. As this information is increasingly used in capital allocation decisions, it is important that it is as reliable as existing financial information, so that there can be justifiable public confidence in what is reported.

2. Regulators in a number of major jurisdictions are prioritizing the development of new regulations governing sustainability disclosures and assurance thereon. In November 2021, the IFRS Foundation established the new International Sustainability Standards Board (ISSB) to develop IFRS Sustainability Disclosure Standards. Already, the ISSB has outlined the actions/ steps that it believes is required to establish a global baseline for a globally operable disclosure system for sustainability-related information. The ISSB is currently seeking input on its proposed standards.

3. The IESBA’s Emerging Issues and Outreach Committee’s (EIOC) research already identified some potential ethics and independence-related issues arising from preparing and providing assurance on environmental, social and governance (ESG) information. The EIOC also provided specific suggestions as to how IESBA might respond to these issues.

4. Informed by the EIOC’s recommendations, at its March 2022 meeting, the IESBA agreed that as a matter of urgency, it is essential that the Board participate in global debates on sustainability reporting and assurance to highlight the applicability of existing ethics and independence provisions, and to consider issues that might inform IESBA’s future standard setting project(s).

5. Responding to the rapidly changing landscape and the recent developments, the IESBA has already identified sustainability reporting and assurance as a strategic focus area in its 2022 Survey to inform its development of the Board’s 2024-2027 Strategy and Work Plan (SWP). However, the Board notes there is a need to progress quickly to respond to stakeholder demands and to collaborate with others (especially regulators and other standard setters) who are already active in this space. Accordingly, the IESBA established a working group (‘Working Group’) in March 2022 dedicated to continuing the EIOC’s fact-finding and the awareness-raising efforts in relation to sustainability matters.

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1 Among others,
   - The European Commission reviewed the Non-financial Reporting Directive (NFRD) and in April 2021, published a Proposal for a Corporate Sustainability Reporting Directive (CSRD). In April 2022, the European Financial Reporting Advisory Group (EFRAG) issued proposed European Sustainability Standards. The comment deadline is August 8, 2022.
   - The US Securities Exchange Commission issued a proposal in March 2022 on The Enhancement and Standardization of Climate-Related Disclosures for Investors. The comment deadline is June 17, 2022.

2 The ISSB issued its first two proposed standards, one setting out general requirements for disclosure of sustainability-related financial information, and the other specifying climate-related disclosure requirements in March 2022. The comment deadline is July 29, 2022.
B. Objectives

6. The objective of the Working Group is to:

(a) Undertake awareness raising activities to explain how the extant provisions in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) apply when preparing, presenting and assuring sustainability information. For example, this might involve explaining how the Code’s extant provisions help address issues that have already been identified by stakeholders (e.g., misrepresentation of information/“greenwashing”).

(b) Undertake fact finding and make recommendations that might inform IESBA’s future standard setting projects and other workstreams aiming to address the *ethical implications* arising from the (i) production, (ii) reporting and (iii) assurance of sustainability information. This might involve a consideration of the challenges posed by the role of individuals other than professional accountants who are involved in that process, and the reliance on internal controls, data sources and data systems that might lack the sophistication and maturity of those that support financial reporting.

C. Focus and Scope

Areas of Focus

7. ESG provides a specific set of criteria for disclosing risks — namely, environmental, social, and governance — that companies can measure and report against. While the research of the EIOC focused on ESG-related developments and ethics (including independence), the focus of the Working Group is broad and will be on sustainability.

8. Sustainability-related information goes beyond ESG risks, as it also encompasses financial information showing how, together, these two blocks provide a broader view of the business, its performance and its capacity of value creation on the long term.

9. The Working Group will align the scope and focus of its work with sustainability-related initiatives being undertaken by regulators and other standard setters to the extent necessary. For example, the Working Group will coordinate with the ISSB and the International Auditing and Assurance Standards Board’s (IAASB) recognizing the importance of preserving the existing alignment between the Code and future sustainability reporting and assurance standards (see Section D of this paper).

10. The Working Group anticipates that its work will have implications for all professional accountants, including those in business who prepare and present sustainability information as well as those in public practice who provide assurance on it.

Awareness Raising

11. The IESBA recognized that the expansion in sustainability reporting and assurance poses new challenges which IESBA will need to consider in the short and longer-term. It is in the public interest that the production and reporting of sustainability data/information (particularly pending the
development and adoption of a global framework) and its assurance be carried out in accordance with high ethics and independence standards.

12. The Working Group will proactively engage with key stakeholders (including regulators, professional and non-professionals accountants), and take other action as needed to highlight ethics and independence issues and the applicable provisions in the Code.

Specific Topics in the Code that are Relevant to Sustainability Reporting and Assurance

13. An important objective of the awareness raising activities is to demonstrate that the extant Code is relevant and applicable to professional accountants who are involved in activities related to sustainability reporting and assurance.

14. With respect to the production, preparation and presentation of sustainability information, the applicable Code provisions include:

- The overarching requirements in the Code, including the **five fundamental principles** – integrity, objectivity, professional competence and due care, professional behavior and confidentiality – and the **conceptual framework**.

- Topic specific provisions including those relating to:
  - Having **sufficient and appropriate expertise**, experience/ training to act competently and with due care before undertaking a task/ professional activity.
  - Preparing and presenting information (including financial and non-financial information that might be made public or used for internal purposes), including relation to:
    - The **use of discretion in preparing and presenting information**.
    - **Relying on the work of others**.
    - **Addressing information that is or might be misleading**.
  - Dealing with **pressure** to breach the fundamental principles.
  - Dealing with **conflicts of interests**.
  - Responding to actual or suspected **non-compliance with laws and regulations**, including fraud.

15. Furthermore, the Code’s independence provisions in Part 4B\(^3\) already apply to all professionals (including non-professional accountants) who provide assurance on sustainability information in accordance with the IAASB International Standard on Assurance Engagements (ISAE) 3000 (Revised).\(^4\) However, as discussed below, there is little information about how sustainability assurance providers who are not accountants use/ implement the Code. Accordingly, concurrent with planned

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\(^3\) Part 4B - Independence for Assurance Engagements Other than Audit and Review Engagements

\(^4\) The IAASB’s ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, applies to assurance engagements on sustainability reporting. Paragraph 3 of ISAE 3000 (Revised) notes that “The members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to the IESBA Code related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding.”
awareness raising activities, there is a need to obtain more information to further understand how the Code is being used in the sustainability space.

16. For auditors of financial statements who are approached to advise or assist their audit clients on sustainability reporting matters the non-assurance services provisions\(^5\) of the Code apply.

**Fact-Finding**

17. The accountancy profession plays an important role in the sustainability reporting supply chain. The profession brings to this domain its wide and deep competencies in the preparation and presentation of information and the provision of assurance thereon. Most importantly, public trust in the profession in those crucial roles for sustainability is underpinned by the robust and global ethics standards by which it must abide.

18. Despite the applicability of the Code to the sustainability reporting and assurance, there is little information available about whether and to what extent the Code is in fact being used by professionals and also by non-professionals when applicable. For example, it is not transparent or apparent as to whether preparers of sustainability information use/apply the Code. Regulators have pointed out the existence of some high-profile examples of misleading sustainability information (i.e., “greenwashing”) in corporate reporting. This suggests that the extant Code is not always being complied with or applied to good effect. It also suggests that there is a lack of clarity about how the Code’s provisions should be applied in the context of the new and emerging circumstances related to sustainability reporting and assurance, particular as global frameworks are evolving.

19. To better understand the current landscape of sustainability-related services, the role of professional accountants, and the potential ethics and independence issues they are facing, the Working Group will carry out extensive research. Among others, the fact-finding will:

- Obtain an understanding of the nature of sustainability-related services that professional accountants in public practice (PAPPs) are providing to their audit and non-audit clients with a particular focus on identifying ethics and independence issues that might arise.

- Gather a full understanding of the various roles and responsibilities of professional accountants in business (PAIBs) within the sustainability space and determine whether Parts 1-2 of the Code which apply to PAIBs remain comprehensive, adequate and fit-for-purpose in relation to sustainability reporting.

- Consider questions regarding the robustness and sufficiency of the International Independence Standards, especially the provisions in Part 4B that apply when undertaking sustainability assurance engagements.

20. The outcome of the fact finding will help define the scope and direct the focus of any ethics and independence standard-setting work and inform the IESBA’s future workstream(s).

\(^5\) The IESBA’s revised NAS provisions that will become effective in December 2022 specify prohibitions on the provision of certain types of NAS to audit clients that are public interest entities (PIEs). It also includes a general prohibition on NAS that might create a self-review threat.
Exploration of Potential Revisions to the Code

21. Although Code applies to sustainability information and to ethics and independence-considerations of sustainability reporting and assurance (as described in paragraphs 12-13), the Code's provisions are principles-based and are not specific in that regard. The Code was primarily developed for professional accountants who undertake professional activities and services relating to financial information, and the terminology used in the application material and examples are skewed towards this approach.

22. Furthermore, the rapidly changing landscape of sustainability-related services and the major shift towards sustainability reporting and assurance have raised a number of questions regarding the need for more specific provisions, especially in relation to the application of Part 4B of the Code.

23. To ensure that the Code continues to be viewed as relevant and “fit for purpose,” the IESBA already signaled its plans to explore whether enhancements to the Code are necessary in its 2022 Survey. That survey includes questions to help the Board determine prioritization and topics to consider in relation to sustainability reporting and assurance.

24. Building on the matters set out in the 2022 Survey, and informed by the outcome of its fact finding, the Working Group will undertake a review of the Code to identify potential areas where the Code can be further enhanced (e.g., by providing more specific requirements and application material) in relation to sustainability reporting and assurance. The outcome of this review will lay the groundwork for the IESBA’s future standard-setting work in the sustainability area, thereby preserving the Code’s future relevance.

E. Approach

Awareness Raising

25. The Working Group activities aiming to highlight the role of IESBA and the applicability of the Code’s provisions to sustainability reporting and assurance will include but are not limited to:

- Outreach and other engagement with key stakeholders, including cooperation with sustainability standards setters and other bodies by indicating how the Code can contribute to high quality sustainability reports.
- Development of non-authoritative guidance, including staff alerts.
- Publications, articles or other thought-leadership pieces.
- Live webinars, pre-recorded audio or video segments, or other multi-media material to highlight the applicability of the Code to sustainability reporting and assurance.

26. The IESBA has commissioned IESBA Staff to develop non-authoritative guidance to highlight certain ethics and independence considerations that might arise in sustainability reporting and assurance. Priority will be given to progressing a staff publication to that will respond to existing regulatory concerns about corporate reporting that provides a false or misleading impression about how well a business or investment aligns with its sustainability goals (“greenwashing”).

27. The Working Group will provide input and advice to direct the development of the non-authoritative guidance which will be prepared by the IESBA Staff. Broader IESBA Board input and consideration will be requested as appropriate, including a formal request for a “fatal flaw” review prior to issuance of the staff publication.
Fact-Finding

28. The Working Group’s fact finding activities will involve, but is not limited to the following:
   • Focused outreach with a diverse range of stakeholders (e.g., diversity in terms of professional roles, perspectives, cultural backgrounds, and geographic representation).
   • Collaborative information gathering or outreach events with NSS, PAOs, regulators, IFAC and other professional bodies, and other relevant organizations.
   • Review of existing reports, articles, and other publications.

29. In particular, the Working Group will launch a questionnaire with specific questions for different stakeholder groups to inform its targeted outreach. The questionnaire will be made available on the IESBA’s website and is intended to invite all stakeholders to share their specific experiences and challenges in relation to sustainability reporting and assurance. It is expected that the questionnaire will help guide the Working Group’s fact finding which seeks to better understand how the Code is currently being used to ensure the reliability and trustworthiness of sustainability data/information.

30. In addition, the Working Group will take into account the relevant feedback on the 2022 Survey (see paragraphs 5, and 19-22).

Exploring Potential Revisions to the Code

31. Informed by its fact finding activities, the Working Group will inventory areas where it believes enhancements or changes to the Code might be warranted for the IESBA’s further consideration. In this respect, the Working Group will periodically brief the Board on its progress and will make its final recommendations in a written report.

Engagement with Stakeholders

32. The Working Group’s awareness-raising and fact-finding activities will involve extensive outreach and engagement with a broad range of stakeholder groups, including:
   • Investors, those charged with governance, and other users of sustainability information/reports.
   • Regulators and audit oversight authorities (especially the International Organization of Securities Commissions).
   • Reporting and assurance standard-setters at global (ISSB and IAASB) and at jurisdictional-level (e.g., European Commission and the US Securities Exchange Commission).
   • Professionals/Organizations that prepare or rate sustainability information/reports (professional accountants, firms, and other non-professional service providers).
   • Professionals/Organizations that provide assurance on sustainability information/reports.
   • Others, including influencers and advocates, policymakers, researchers and academics.

Coordination with IAASB

33. The topic of sustainability assurance is prominently featured in the IAASB’s 2022-2023 Strategy Work.
Plan. As discussed above, ISAE 3000 (Revised) already notes the need for professional accountants (and non-professional accountants) who provide assurance on sustainability information to comply with the IESBA Code. The Working Group will liaise and proactively coordinate with IAASB to preserve the existing alignment between the IAASB’s assurance standards and Part 4B of the Code.

34. The IAASB’s and IESBA’s sustainability workstreams will involve drawing on largely the same information sources. However, due to the difference in the remits of the two Boards, there will be a need for both joint and stand-alone stakeholder engagement. For example, the staff of the two Boards are already coordinating timelines for stakeholder outreach and awareness raising activities to ensure maximum efficiency and to reduce the risks of stakeholder fatigue. Regular interactions and communication at all levels (e.g., Chairs, Working Group and Staff) will be critical, especially during the two Boards’ information gathering and project scoping phase.

Coordinating with Others IESBA Workstreams

35. In addition to external stakeholders, the Working Group anticipates the need to liaise and coordinate overlapping issues (in particular, issues related to sustainability/technology or sustainability/tax planning) with other IESBA Task Forces/Working Groups.

Communications

36. With support from the IFAC Communications team, the Working Group will regularly update stakeholders through a variety of channels, including the IESBA and IFAC websites, eNews, and social media.

F. Deliverables and Timing

37. The Working Group will:

(a) Provide quarterly updates to the IESBA on its work and developments, including:

- The Working Group’s awareness raising activities on the applicability of the Code, such as meetings with stakeholders, thought leadership and other articles, etc.
- Discussion matters identified from the fact-finding and engagement with stakeholders. The Working Group will also invite experts to help inform the Board’s discussions.
- Non-authoritative guidance issued by the IESBA Staff under the auspices of the Working Group.
- Potential issues arising from sustainability reporting and assurance that might warrant consideration about the need for enhancements or changes to the Code.

(b) Advise and oversee the launch of a dedicated IESBA webpage related to highlighting ethics and independence considerations in relation to sustainability reporting and assurance.

(c) Present a final report (by June 2023) that will reflect the Working Group’s final recommendations and findings based on its fact-finding activities. It is anticipated that these recommendations will

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6 To help stakeholders more readily identify and understand available guidance for assurance of sustainability/ESG reporting, the IAASB released a Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements (EER Guidance) in April 2021. The EER Guidance responds to key stakeholder-identified challenges commonly encountered when applying ISAE 3000 (Revised).
include matters for IESBA’s consideration regarding the way forward and potential areas to consider for enhancing the Code as part of its future standard-setting work.

38. The Working Group will ensure that its activities, as well as the related deliverables, are being progressed within a timeframe that considers the ISSB’s and IAASB’s timetables for the development of sustainability-related standards.

G. Composition

39. The Working Group is chaired by an IESBA member, with four other working group members from the IESBA. The Working Group is supported by IESBA Staff.