Meeting: IESBA
Meeting Location: Hybrid
Meeting Date: November 29–December 2, 7 & 15, 2022

Agenda Item

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Objective of Agenda Item

1. To consider and approve a project proposal related to:

   (a) The development of ethics and independence standards for sustainability reporting and assurance \(^1\) leveraging the provisions in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

   (b) Addressing specific ethics/ independence questions that arise when professional accountants in business and in public practice (including auditors) use experts in preparing, auditing and assuring information.

   (c) Continuing further targeted stakeholder outreach to inform the Board’s discussions in 2023 about the different options for delivering new material to support sustainability reporting and assurance, recognizing the greater diversity of those providing reporting and assurance services in this area.

Working Group

2. The Working Group comprise:

- Mark Babington, Chair
- Vania Borgerth, IESBA member
- Laurie Endsley, IESBA member
- Christelle Martin, IESBA member
- Jens Poll, IESBA member

In addition to IESBA Staff, the Working Group receives technical support from IESBA Technical Advisor, Keith Billing.

IESBA-IAASB-ISSB Coordination

3. The draft project plan involves two work sustainability streams to be progressed at an accelerated pace so that IESBA’s project outputs can be available at the same time as the sustainability-related standards being developed by the International Auditing and Assurance Standards Board (IAASB) and the International Sustainability Standards Board (ISSB). In this regard, representatives of the

\(^1\) At is September 2022 meeting, the IESBA committed to developing professional agnostic ethics and independence standards for sustainability assurance engagements.
IAASB and the ISSB will brief the IESBA at its November/December 2022 meeting. Similarly, the IESBA Working Group Chair will brief the IAASB during its December 2022 meeting.

**IAASB-IESBA Coordination**

4. The IESBA and the IAASB staff continue to work closely to identify matters that might warrant coordination in progressing the Boards’ respective projects. These matters have been considered in developing the sustainability and use of experts draft project plans.

**Activities Since the Last IESBA Discussion**

5. After the November 1 IESBA meeting, the Working Group met via videoconference to agree the draft project proposals set out in Agenda Items 3A and 3B.

**Sustainability Questionnaire**

6. Since August 2022, a sustainability questionnaire has been available on the IESBA’s website. A deadline of November 21, 2022 was provided for written responses. The IESBA will receive a high-level overview of the responses received during the November/December 2022 meeting.

**Targeted Stakeholder Engagement**

7. The Working Group presented to the IESBA Consultative Advisory Group (CAG) shortly after the September 2022 IESBA meeting. The IESBA will be briefed on the key outcomes of the CAG discussion during its November/December meeting.

8. The Working Group and the IESBA Staff have continued to engage with key stakeholders meeting, including the International Forum of Independent Audit Regulators (IFIAR) and staff from the US Public Company Accounting Oversight Board (PCAOB), and a number of wider stakeholders as a result of the Working Group Chair speaking at a number of events, including those attending the PCAOB’s International Institute. In addition, the Chair of the IESBA participated in a sustainability panel at the 2022 World Accounting Congress of Accountants. The IESBA will be briefed on the key outcomes of these stakeholder meetings during its November/December meeting.

9. The Working Group also recognizes the importance, following discussions with IESBA members of further, extensive outreach to inform the IESBA’s further discussions and consideration, and has engaged with stakeholders to identify opportunities for targeted outreach with the diverse stakeholder groups working in the sustainability sector.

**Key Regulatory Developments**

10. The Working Group continues to monitor regulatory development at the global and jurisdictional level. In particular, it notes the following:

   - **European Union (EU).** The European Parliament adopted the political agreement on the Corporate Sustainability Reporting Directive (CSRD) in November 2022. The CSRD provides more detailed reporting requirements on companies’ impact on the environment, human rights and social standards, based on common criteria in line with EU’s climate goals. The European Council is expected to adopt the proposal on November 28, 2022, after which it will be signed and published in the EU Official Journal. The CSRD will enter into force 20 days after publication.
Commission plans to adopt the first set of standards by June 2023. Under the newly adopted rules, “…companies will be subject to independent auditing and certification. Financial and sustainability reporting will be on an equal footing and investors will have comparable and reliable data. Digital access to sustainability information will also have to be guaranteed.”

The sustainability reporting requirements will apply to all large companies, whether listed on stock markets or not. Non-EU companies with substantial activity in the EU (with a turnover over €150 million euro in the EU) will also have to comply. Listed SMEs will also be covered, but they will have more time to adapt to the new rules.

- **New Zealand.** The External Reporting Board (XRB) is actively progressing a project to establish a voluntary, non-financial reporting framework. Phase one of this project is focused on understanding the specific reporting to inform the development of the framework. XRB aims for the framework to be available for initial testing by mid-2023.

- **UK.** In October 2022, the Financial Conduct Authority proposed new rules to address greenwashing. Among other matters the proposed rules introduce restrictions on how certain sustainability-related terms – such as ‘ESG’, ‘green’ or ‘sustainable’ – can be used in product names and marketing for products which don’t qualify for the sustainable investment labels. It is also proposing a more general anti-greenwashing rule covering all regulated firms. This will help avoid misleading marketing of products.

**Action Requested**

11. IESBA members are asked to consider and approve the draft project proposals in **Agenda Items 3-A and 3B.**

**Material Presented**

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4 The objective of the FCA’s proposed rules appear to be aligned to those set out in the US Securities Commission’s Proposed Rule 33-11068, *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices.*