A. Subject

1. This two-part project proposal addresses the development of:
   
   (a) Ethics and independence standards for use by all assurance practitioners in sustainability assurance engagements (i.e., professional accountants and other professionals performing sustainability assurance engagements). Such standards will address both limited and reasonable assurance.
   
   (b) Revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code)\(^1\) to address the ethics issues that might arise in sustainability reporting.

2. The IESBA envisages that its final sustainability pronouncement would leverage the existing ethics and independence provisions in the Code to provide principles-based overarching ethics and independence provisions that will be suitable for application in reporting and providing assurance on all sustainability information (e.g., climate disclosures, or social issues such as modern slavery). There is an open question about whether it will be necessary to develop more specificity than an overarching ethics and independence standards related to sustainability reporting and assurance over time. This matter is not addressed in this project proposal.

3. The IESBA notes that the jurisdiction developments relating to the integration of sustainability information within the financial statements is still evolving and that a global position is not yet determined. Accordingly, the IESBA does not plan to expressly deal with this matter as part of its standard setting project. Instead, the IESBA will adopt an approach that is sufficiently flexible to accommodate sustainability information that is integrated with the financial statements or reported on a stand-alone basis. The IESBA will continue to discuss these more strategic issues at future meetings and calls, as the Task Force gathers additional stakeholder insight and market understanding to inform its debates.

B. Background

A Changing Landscape

4. 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. Sustainability-related information is taking its rightful place alongside financial information—driven by investor (and broader stakeholder) demand to enhance corporate reporting with disclosures addressing environmental, social, and governance (ESG) matters.

5. Financial markets have seen accelerated growth in the disclosure of sustainability information. Along

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\(^1\) For purposes of this document, the reference to extant Code is the [2022 edition of the IESBA Handbook](https://www.iesba.org/) which includes the most recent IESBA-approved revisions approved by the IESBA.
with the market demand for more sustainability data, there has been an increasing call for assurance to be provided, especially from investors and regulators who point out that sustainability information is increasingly used in capital allocation decisions and should be as reliable and credible as financial information.

6. While the data from the July 2021 IFAC/AICIPA-CIMA State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis still shows a wide range of standards/frameworks is being used by companies (i.e., 80% of companies used multiple frameworks for what they reported in 2020), a harmonized and global system for reporting is emerging—led by the International Sustainability Standards Board’s (ISSB) global baseline of investor-focused requirements and complimented by additional jurisdiction-specific and impact-focused reporting.

7. High-quality, consistent, comparable, decision useful, and assurable financial and non-financial information is supported by an ecosystem of regulators, professional organizations, educators, accountancy firms, standard-setting bodies, and others that have evolved over time. Standard setters and regulators are prioritizing the development of new regulations governing sustainability disclosures and assurance thereon. These developments are occurring at the global and jurisdiction level.  

8. IESBA has been actively following these global and national standard-setting activities and providing input thereon to ensure the considerations of the ethics and independence aspect as an important pillar of such standard-setting activities. In response, the IESBA identified sustainability reporting and assurance as a strategic focus area in its 2022 Survey to inform its development of the its 2024-2027 Strategy and Work Plan (SWP) and established a sustainability working group in March 2022.

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2 See State of Play in Reporting and Assurance of Sustainability Information by IFAC and AICPA-CIMA (July 2021).

3 For example:
   - 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 with a commenting deadline until July 29, 2022.
   - The SEC issued proposed rules to enhance and standardize climate-related disclosures for investors in March 2022. The SEC's proposal would require SEC registrants to include certain climate-related disclosures in their registration statements and periodic reports.
   - The European Commission published the text of the Corporate Sustainability Reporting Directive (CSRD) that the Council and European Parliament provisionally agreed to in June 2022. In relation to that, the European Financial Reporting Advisory Group (EFRAG) also issued proposed European Sustainability Standards with a comment deadline of August 8, 2022.

4 For example, on June 22, 2022 the IESBA submitted a response to the ISSB on the ISSB’s Exposure Drafts – General Sustainability-Related Disclosures and Climate-Related Disclosures.

5 The IESBA established a Working Group to:
   - Develop a strategic vision to guide the IESBA’s standard-setting actions in relation to sustainability reporting and assurance.
   - Promote awareness of the relevance of the Code (i.e., ethics and independence standards) in sustainability reporting and assurance.
   - Conducting fact finding, including extensive stakeholder outreach, to inform the IESBA’s standard-setting activities and other workstreams.
supported by many stakeholders, including the Financial Stability Board (FSB), and the International Organization of Securities Commissions (IOSCO).

Applicability of the Extant Provisions to Sustainability Reporting and Assurance

9. While the Code does not expressly deal with sustainability reporting and assurance, it provides principles-based requirements that are relevant in these circumstances.

10. Among other matters, the IESBA Code:

- Establishes a responsibility for professional accountants to act in the public interest and establish the mindset and behavioral characteristics professional accountants must exhibit when undertaking professional activities. This includes activities related to sustainability reporting and the provision of assurance thereon.

- Sets out the fundamental principles of ethics – integrity, objectivity, professional competence and due care, confidentiality and professional behavior – that all PAs are required to apply. It also specifies a conceptual framework that all PAs are required to apply in identifying, evaluating and addressing threats to compliance with those principles.

- Deals with topics such as conflicts of interest, preparation and presentation of information, acting with sufficient expertise, responding to non-compliance with laws and regulations (NOCLAR), pressure and independence. These topics are of relevance to sustainability reporting and assurance.

- The incremental provisions in Part 3 of the Code apply to PAPPs (including auditors) who are called upon to help their clients in preparing sustainability-related information.

11. In relation to independence, the Code provides ethics (in Parts 1 to 3) and independence (in Parts 4A and 4B) provisions for PAs that are engaged to provide external audit/assurance on information – both financial and non-financial.

- The independence provisions relating to the provisions of non-assurance services (NAS) to audit clients would apply when a financial statement auditor is called upon to assist or advise an audit client on sustainability reporting matters.

- The IAASB’s extant ISAE 3000 (Revised) standard is premised on the basis that 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 provisions of the IESBA Code related to assurance engagements or other professional requirements, or requirements in law.

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6 In its 2022 progress report on Roadmap for Addressing Financial Risks, the Financial Stability Board (FSB) highlighted that an important area for future work will be on the development of new sustainability assurance, ethics and independence standards. The FSB acknowledged the work of the IESBA and the IAASB and the importance of having robust standards and actions to promote consistency in practices.

7 In its September 15, 2022 statement, the IOSCO encouraged standard-setters’ work on assurance of sustainability-related corporate reporting and welcomed the work of the IESBA and IAASB in this regard.

8 The provisions of the IESBA Code related to assurance engagements are set out in extant Part 4B of the Code. Professional requirements, or requirements imposed by law or regulation, are at least as demanding as the provisions of the IESBA Code related to assurance engagements when they address the matters in paragraphs A30–A33 of the ISAE 3000 (Revised), and impose obligations that achieve the aims of the requirements set out in the IESBA Code related to such engagements.
or regulation, that are at least as demanding.\textsuperscript{9}

- Extant ISAE 3000 (Revised) specifies that among other matters, the assurance auditor’s report must include “a statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.”\textsuperscript{10}

IESBA Actions and Learnings To-Date

12. Back in June 2022, the IESBA expressed a firm commitment to take timely action to develop fit-for-purpose, globally applicable ethics, and independence standards as a critical part of the infrastructure needed to support transparent, relevant and trustworthy sustainability reporting.

13. Noting the growing trend of stakeholders seeking assurance of sustainability-related information, whether on a voluntary basis or to meet regulatory requirements, and to make capital allocation decisions, the IESBA has determined that sustainability assurance must be underpinned by the same high standards of ethical behavior and independence that apply to audits of financial information. In other words, the independence provisions in Part 4B of the Code are not sufficiently robust for providing assurance on sustainability reporting prepared under a general-purpose reporting framework. Instead, the more robust independence provisions that apply to audits of financial statements in Part 4A of the Code is the appropriate starting point for developing ethics and independence standards for sustainability assurance engagements. This approach is consistent with the position taken by regulators in some major jurisdictions (e.g., the US\textsuperscript{11} and Europe\textsuperscript{12}).

14. The IESBA has already undertaken extensive information gathering to understand the challenges regarding ethics and independence in sustainability reporting and assurance, identify issues to be addressed and explore potential solutions. In particular, the IESBA has actively engaged with key stakeholders who are involved in developing the ecosystem for sustainability reporting, and

\textsuperscript{9} See paragraphs 3 and 20 of International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information.

\textsuperscript{10} See paragraph 69 (j) of ISAE 3000 (Revised).

\textsuperscript{11} See the SEC’s proposed Rule which states that “…the attestation report [would] include a statement that describes the attestation provider’s responsibilities in connection with the preparation of the attestation report. This is consistent with existing requirements in reports such as those issued by the independent auditor on the audited financial statements or a review report on the interim financial statements.”

\textsuperscript{12} See the proposed EU CSRD text. Generally, the EU CSRD text notes that “… all independent assurance services providers should be subject to requirements that are equivalent to those set out in Directive 2006/43/EC as regards the assurance of sustainability reporting, while being adapted to the characteristics of independent assurance services providers which do not carry out statutory audits. In particular, Member States should set out equivalent requirements as regards training and examination, continuing education, quality assurance systems, professional ethics, independence, objectivity confidentiality and professional secrecy, appointment and dismissal, the organisation of the work of the independent assurance services providers, investigations and sanctions, and reporting irregularities. This will also guarantee a level playing field among all persons and firms allowed by Member States to provide the opinion on the assurance of sustainability reporting, including statutory auditors…”
assurance thereon. This includes the IAASB, the FSB, the IOSCO, the European Commission, the ISSB, the US Securities Exchange Commission (SEC), the Global Reporting Initiative, the Global Public Policy Committee (GPPC), the Forum of Firms, and the IESBA’s National Standard Setters Liaison Group (NSS).

15. The feedback from the 2022 stakeholder engagement and outreach indicates a clear need for IESBA to progress quickly and to collaborate with others who are already active in the sustainability space. Stakeholders, including the FSB, IOSCO, and respondents to the 2022 IESBA Survey have publicly expressed support for having international ethics and independence standards for use in sustainability reporting and assurance to complement the standards being developed by the ISSB, and the IAASB.

16. To-date IESBA’s stakeholder engagement and outreach efforts has resulted in increased awareness of the relevance of the Code, in particular the fundamental principles of ethics and independence in sustainability reporting and assurance. There is agreement that Code already provide a robust set of principles-based provisions for professional accountants when preparing and presenting sustainability information. In this regard, the IESBA:

- Issued a staff publication to highlight the relevance and applicability of the Code to several ethics-related challenges arising from professional accountants’ involvement in sustainability reporting and assurance, especially circumstances related to misleading or false sustainability information (i.e., "greenwashing") in October 2022.
- Hosted a virtual discussion about critical role that complying with ethics (and independence) standards plays in ensuring reliable and trustworthy sustainability information in May 2022.

Need for Further Input from Stakeholders, Especially from Non-PAs

17. While the IESBA’s information gathering and research has been quite comprehensive, there is a need for more research to inform strategic discussions such as the format and structure of the forthcoming professional agnostic ethics and independence standards for sustainability assurance engagements; and to identify the pressing ethics and independence issues that might arise in sustainability reporting and assurance. In this regard, the Working Group issued a sustainability stakeholder questionnaire in August 2022 with a request for input by November 21, 2022.

18. Research indicates that in some jurisdictions sustainability assurance engagements are undertaken by consultants or other professionals, and not only PAs. Because these non-PAs are not independent professional accountants (PAs), they may also not be obligated to comply with the Code

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13 In September 2022, the IAASB approved a project proposal to develop the overarching standard for assurance on sustainability reporting that is implementable by all assurance practitioners (i.e., professional accountants and other professionals performing assurance engagements). The IESBA and the Working Group worked closely with IAASB to identifying matters that might warrant coordination in progressing the Boards’ respective projects.

14 The GPPC comprises representatives of six international accounting networks: BDO, Deloitte, EY, Grant Thornton, KPMG and PwC.

15 For further information about the IESBA’s sustainability initiatives, please visit the IESBA’s dedicated webpage.

16 This is especially the case in China, Hong Kong, India, Indonesia, New Zealand, Singapore, South Korea, U.K. and U.S.

or an equivalent and act in the public interest. In this regard, the IESBA notes that IFAC is currently undertaking targeted research to provide insights on how certain provisions in ISAE 3000 (Revised) are being implemented in practice. Specific to independence, the targeted research will provide information about:

- Whether the sustainability assurance reports issued by practitioners who are PAs include a statement about their compliance with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.

- Whether sustainability assurance reports issued by practitioners who are non-PAs include a statement about their compliance with the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the IESBA Code related to assurance engagements.

19. Section D and E of this paper deals with proposed scope and approach for developing the ethics and independence standards for sustainability reporting and assurance standards, including the specific issues that have been identified for consideration.

Public Interest Framework

20. The IESBA leveraged the Public Interest Framework (PIF) published by the Monitoring Group in July 2020 (as part of their report, *Strengthening the International Audit and Ethics Standard-Setting System*) in developing this project proposal to articulate the public interest responsiveness of the project. Among other things, the PIF sets out the considerations essential to the judgments needed in the development of standards. Although the IESBA is not yet required to implement the PIF, it is likely this project will be in progress and completed when the PIF is implemented. Therefore, the elements of the PIF deemed applicable and relevant to this project have been tailored and used as the basis for this project proposal, while still adhering to the due process requirements currently in place. However, as the PIF is being implemented as part of the Monitoring Group reforms, there may be elements of the PIF that are relevant to standard setting that will be further developed for the IESBA’s work more broadly in the future.

21. Throughout the duration of the project, the IESBA will benefit from the independent, direct oversight by the PIOB, and will remain transparent and adhere to the IESBA’s agreed strategies, due process, and the need to be responsive to the public interest.

22. This project proposal describes the project objectives that support the public interest, as well as the project scope for the work that will be undertaken in the project.

C. Project Objectives that Support the Public Interest

23. Considering the stakeholders whose interests are to be served (see Section G), the project objectives are to develop:

(a) Revisions to the Code to address the ethics issues that might arise in sustainability reporting; and

(b) Ethics and independence standards for use and implementation by all sustainability assurance practitioners (i.e., professional accountants and other professionals performing sustainability
24. There is a public interest need to have these standards available for use at the same time as the forthcoming IAASB’s overarching sustainability assurance standard.

D. Project Scope

25. The scope of the proposed revisions will encompass the entire Code,\textsuperscript{18} including:

- Part 2 – Professional Accountants in Business;
- Part 3 – Professional Accountants in Public Practice; and
- Parts 4A and 4B – International Independence Standards.

26. The sustainability project Task Force will develop proposed revisions that build on the current Code and forthcoming revisions arising from the Technology and ET-GA projects. The IESBA anticipates finalizing these projects at its November/December 2022 meeting.\textsuperscript{19}

E. Approach to Developing Standards

27. Similar to the approach in the extant Code, the ethics and independence standards for sustainability reporting and assurance would be framework-neutral, i.e., suitable for use, irrespective of the underlying criteria used to prepare or assure the sustainability information. Nevertheless, in developing the standard, the IESBA will use globally developed sustainability reporting standards as a basis for understanding whether its proposals are appropriate and can be practically applied, such as the IFRS Sustainability Disclosure Standards being developed by the ISSB and the GRI Standards. Furthermore, the IESBA will monitor other jurisdictional developments on sustainability reporting, including those in the US, the EU, the Middle East and the Asia Pacific regions.

Specific Issues Categorized by Two Workstreams

28. Among other matters, the project will involve two workstreams to:

- (a) Consider independence issues that might arise when providing assurance on sustainability reporting. In particular, the proposed standards will provide clear and explicit independence provisions to assist sustainability assurance practitioners who are PAs or non-PAs. Specific provisions might be needed to assist in determining:
  - Which set of independence standards are applicable based on a specified list of sustainability assurance scenarios (e.g., assurance on sustainability information that is

\textsuperscript{18} It is anticipated that revisions to the provisions in Part 1, Complying with the Code, Fundamental Principles and Conceptual Framework of the Code will be limited.

\textsuperscript{19} This includes:

- The technology-related revisions to extant paragraphs R220.7 to 220.7 A1 and R320.10 to 320.10 A1 related to the PA’s use of the work of others or an expert.
- The ET-GA revisions to the Glossary definition of assurance team to consider those engaged by a firm who can directly influence the outcome of the assurance engagement, and refinements to the Glossary definition of engagement team to provide more explicit references to the relevant ISAs.
integrated within financial information; assurance on sustainability reporting that is prepared in accordance with a general-purpose framework, such as the ISSB’s standards; and finally, assurance on sustainability reporting when a general-purpose framework is not used).

- What constitutes a management responsibility and whether there is a need to provide examples of sustainability-related activities that involve assuming a management responsibility and therefore is prohibited.
- Whether certain sustainability-related activities should be permissible versus those are expressly that are prohibited services, relationships, and financial interests.

(b) Consider ethics issues that might arise in sustainability reporting and assurance. This will involve:

- A consideration of the types of threats to the fundamental principles of ethics that might arise when undertaking sustainability-related tasks and activities (including reporting on sustainability information and providing assurance thereon), and the types of actions that might be appropriate safeguards. As appropriate, specific guidance will be added to help in identifying, evaluating and addressing sustainability-related threats to the fundamental principles and to independence. In particular, guidance might be added to:
  - Address public interest concerns about misleading sustainability information (i.e., greenwashing),
  - Deal with risks that a PA with insufficient skills and expertise might accept unsubstantiated sustainability information at face value when such information is provided by (i) a sustainability expert or (ii) a sustainability-related technology solution.
  - Address pressures to act unethically in the face of unrealistic sustainability-related goals or targets.
  - Help in identifying and mitigating conflict of interest issues that might impair judgements and decisions.
  - Provide additional material to assist preparers of sustainability information exercise discretion and professional judgment, especially when a general-purpose framework is not available for use.
- A review of the extant provisions in Part 2 that are not repeated in Part 3 of the Code, and their applicability to sustainability reporting. It will be necessary to consider:
  - Whether ethics responsibilities should vary based on a PAs in business’ role and seniority in an employing organization.
  - Whether a new section should be added to Part 3 to guide PAs in public practice

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20 The IESBA Code establishes the ethical behaviors expected for professional accountants. These are embodied in the five fundamental principles and the conceptual framework. In this context, a professional accountant who succumbs to pressure to breach the fundamental principles of ethics set out in the Code is in effect acting unethically.

21 In particular, these include Sections 220, Preparation and Presentation of Information; 230, Acting with Sufficient Expertise, and 270, Pressure to Breach the Fundamental Principles.
that are engaged to assist their clients in sustainability-related tasks and activities.

**Matters Relating to Workstream 1 – Independence**

29. The project Task Force will need to decide on the drafting convention to be used for developing the profession agnostic ethics and independence standards for sustainability assurance engagements. In doing so, the outcome of the IESBA’s November 1, 2022 meeting deliberations is relevant.\(^{22}\) At the project outset, it will be necessary to establish a drafting approach that will allow the IESBA maximum flexibility in making strategic decisions about the most suitable project output. Input from non-PAs will be critical to inform these discussions.

30. Irrespective of the drafting option chosen,\(^ {23}\) the project Task Force will need to:

- Establish sustainability-specific definitions (e.g., sustainability information, sustainability assurance engagement). Timely IESBA-IAASB-ISSB coordination will be needed to align definitions where appropriate (i.e., where the same terms are being used).
- Revise/adapt certain existing definitions so that they remain relevant in a sustainability assurance engagement context.
- Reframe certain terms so that they are more generic to a wider range of types of engagements.
- Consider how the revised quality management standards are dealt with in ISSA 5000 and determine whether there are implications for the Code.
- Add examples of factors for evaluating the extent of public interest in sustainability aspect of an entity.
- Consideration of an appropriate independence period for sustainability-related information.
- Consider how IAASB’s ISSA 5000 deals with group sustainability assurance engagements, including whether there are any consequential changes to ISA 600 (Revised) and determine implications for the Code.

**Guidance to Assist Non-PAs Apply the Code’s Ethics and Independence Provisions**

31. It is envisaged that a non-authoritative guidance document might need to be exposed together with the IESBA’s Sustainability Exposure Draft if the integrated approach described at is paragraph 56(a)] is taken. Although the document would not form part of the authoritative text of the Code, it would provide a readily accessible and user-friendly guidance to assist application of the Code when providing sustainability assurance engagements. This document might be particularly helpful for non-PAs applying the Code for the first time.

**Matters Relating to Workstream 2 – Ethics**

32. Investors and other stakeholders have a growing interest in companies’ value-creating, sustainability

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\(^ {22}\) The November 2022 IESBA meeting include illustrative drafting options presented by the Working Group for developing profession agnostic ethics and independence standards.

\(^ {23}\) Certain drafting options involve extensive revisions to defined terms that are being revised as part of the ET-GA project (e.g., audit team, engagement team, group audit team). The IESBA anticipates approving the ET-GA revisions to the Code in December 2022.
goals and other sustainability information that play a significant factor used in capital allocation decisions. There is a broad spectrum of emerging services that practitioners can provide to their clients, including advisory services, reporting, agreed-upon procedures engagements, and assurance services. However, the basis of such services, the sustainability information, may slightly differ from the usual financial and other non-financial information PAs used to work with.

33. Sustainability information tends to involve less quantitative factors (such as human rights and other social factors), and it might require different skills and mindsets from PAs. The IESBA needs to consider and demonstrate whether the fundamental principles, the conceptual framework and the mindset required by the Code are still appropriate for this broad range of sustainability services.

Ethics Considerations in Sustainability Reporting

34. **Terminology.** The Code's terminology and provisions focus primarily on traditional financial services, such as accounting, auditing, tax, or financial management. Also, the various examples of professional activities and services in the Code call for accountancy or related skills. Furthermore, the specific factors and examples of the safeguards in Parts 1 to 3 in the Code mainly relate to facts and circumstances that are relevant to financial statements and financial information. Therefore, to appropriately capture the ethical consideration that might arise when undertaking sustainability-related activities, the project Task Force should consider adding sustainability-related examples, especially in Parts 1 to 3 of the Code.

35. **Preparing and Presenting Information.** Section 220 of the Code sets out guidance for PAIBs, at all levels of the employing organization, involved in preparing and presenting information both within and outside the organization. This information already covers financial, non-financial, and sustainability information that is used for public or internal purposes. However, some stakeholders have expressly pointed out that the requirements of Section 220 and the Code more broadly, do not explicitly reflect the overarching purpose of sustainability reporting envisioned by sustainability-related goals such as the United Nations Sustainable Development Goals (SDGs).

36. The rapidly changing ecosystem of global and national sustainability standard setting, the qualitative nature of sustainability information, and the lack of key indicators result in increased challenges (e.g., complexity and uncertainty) in producing, preparing, or presenting sustainability information. The need for exercising discretion and professional judgment play an important role when providing such services. Although the Code provides requirements and guidance for using discretion in certain circumstances, they do not expressly relate to sustainability reporting. The project Task Force should consider building on these provisions to provide specificity for sustainability reporting.

37. The Code includes provisions to mitigate the risks of being associated with misleading information. This includes examples of appropriate actions that might help PAs not to be associated with misleading information. However, these obligations do not take into account the PA’s role and seniority in an employing organization. Consideration should be given to providing enhancements and clarifications in this regard, similar to the approach in the NOCLAR provisions of the Code (i.e., Sections 260 and 360).

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24 Section 220, Preparation of Presentation of Information  
25 Paragraphs R220.5 to R220.6  
26 Paragraphs R220.8 to R220.9
38. Given the growing global importance of sustainability-related services, PAPPs are increasingly being called upon to provide sustainability-related services to their clients. However, Part 3 of the Code does not include provisions related to preparing and presenting information, acting with sufficient expertise, or pressure to breach the fundamental principles. The project Task Force should consider leveraging the relevant PAIB provisions in Part 2 of the Code to develop applicable provisions for PAPPs. Such provisions might include sustainability-specific guidance for PAPPs who are engaged to provide tasks and activities related to sustainability reporting and sustainability assurance readiness.27

Ethics Considerations in Sustainability Assurance

39. In developing the profession agnostic ethics standards for sustainability assurance, the project Task Force will need to determine how best to adapt the applicable ethics provisions in Parts 1 to 3 of the Code.

Interaction with the IESBA Use of Experts Project

40. The use of experts is critical in sustainability reporting and assurance. Questions raised about the use of an expert in preparing sustainability information and in sustainability assurance engagements will be dealt with as part of a separate project (see Agenda Item 3-B).

41. The project Task Force will proactively liaise with the Experts project Task Force to coordinate and progress its work.

Coordination with the IAASB

42. The IAASB is currently progressing a project to develop an overarching sustainability standard titled, International Standard on Sustainability Assurance™ (ISSA) 5000, General Requirements for Sustainability Assurance Engagements. Accordingly, the project Task Force will need to proactively liaise with the IAASB’s Sustainability Assurance Task Force in accordance the IAASB-IESBA Coordination Framework.

43. Already, the following are identified as matters that might warrant coordination or joint thinking:

- Approach to refer to the IESBA Code in ISSA 5000 and vice versa.
- Approach to incorporating the Quality Management Standards into ISSA 5000 and whether there are implications for the Code.
- Definitions (e.g., “engagement partner” versus “engagement leader”; key engagement partner versus key sustainability leader; engagement team, audit team, assurance team, and sustainability engagement team; subject matter information; underlying subject matter information).
- Considerations for sustainability assurance engagements in a group context and implications for ISA 600 (Revised) and proposed Section 405 of the Code.
- Materiality considerations in sustainability assurance.

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27 Assurance readiness covers non-assurance services that the professional accountants provide to their clients in assisting to the client’s preparation for the assurance engagement provided on the client’s sustainability reports.
Independence considerations relating to the use of an expert by (i) the sustainability assurance engagement team; and (ii) by management.

Consultation with Stakeholders, Including Roundtables

44. Due to the nature and potentially wide scope of the project, obtaining further stakeholder views is critical to the IESBA’s objectives in relation to its sustainability workstreams. Therefore, the project Task Force will seek to engage with all stakeholders, including those noted in Section F of this paper, and sustainability assurance practitioners who are not PAs.

45. Global roundtables are tentatively planned for the second quarter of 2023 with various stakeholders. Such roundtables and other targeted stakeholder outreach will help to ensure buy-in from individuals and groups that IESBA has not yet engaged with (e.g., sustainability assurance providers who are not PAs). It is envisioned that at least one of the roundtable events should target non-PAs. Preliminary review of standards used by professionals who are not PAs suggests that these standards or frameworks are procedural in their focus with limited material covering ethics or independence.28

46. Such consultation will supplement, but not replace, the IESBA’s ongoing outreach, liaison and consultation activities, including its interactions with the IESBA Consultative Advisory Group (CAG),29 the NSS, PAs in business, the Forum of Firms, and certain regulators (i.e., IOSCO and IFIAR). As appropriate, the learnings and insights from these consultations will inform the scope and timeline for the project.

Non-authoritative Material

47. As the project evolves, opportunities might be identified for the IESBA to commission non-authoritative material to support and promote adoption and implementation of the principles-based framework in the Code. If so, the project will develop recommendations for the IESBA’s consideration, including potential collaboration with IFAC and others.

F. How the Project Serves the Public Interest and Impact Analysis

How the Project Serves the Public Interest

48. Key public interest outcomes this project seeks to achieve are:

(a) Promoting consistent and ethical basis with which PAs in business and in public practice use experts in their professional activities and services, consistent with their responsibility to act in the public interest;

(b) Raising awareness about threats to compliance to the fundamental principles associated with using experts who are presumed to be ethical;

(c) Protecting and strengthening the PA’s role and reputation when using experts, especially relevant as sustainability information needs are on the rise; and

(d) Strengthening independence considerations of firms when experts are used in audit and

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28 For example, this is the case for the standards developed by the International Organization for Standardization.
29 In 2024, the IESBA and IAASB CAGs will be replaced with the Stakeholder Advisory Council (SAC) as contemplated under the Monitoring Group reforms.
IESBA is committed to progressing an ambitious timetable to ensure that its sustainability-related ethics and independence standards are available for timely use and adoption by jurisdictions/reporting entities that elect to use the forthcoming ISSB and IAASB sustainability standards.

Impact Analysis Considerations

49. In line with the PIF’s qualitative characteristics used to describe the assessment of a standard’s responsiveness to the public interest, the qualitative characteristics to be considered when finalizing this project include whether the revised standard:

- Is consistent with the identified public interest objectives set out for the project (see Section C).
- Operates coherently with the Code’s "building blocks" architecture and drafting conventions.
- Has responded, as appropriate to differing circumstances, emerging issues, changes in business or public practice environments, developments in accounting practices, or changes in technology.
- Reflects the results of broad consultation and has balanced stakeholder priorities.
- Has been developed with sufficient clarity and conciseness to support proper intended application and minimize the likelihood of differing interpretations.
- Is capable of being implemented effectively, and consistently applied globally.

50. As the project advances, costs and benefits will be an important consideration as the IESBA evaluates options and the practical impact of any potential changes to the Code. At a general level, however:

- The project output(s) is expected to benefit the stakeholders set out in Section G below by providing clear and robust ethics and independence requirements and guidance for sustainability reporting and assurance.
- There will be costs associated with adoption and implementation at the national level and within firms, including translation, awareness-raising and training. In addition, legal and regulatory action might be needed at the jurisdictional level.

51. The project will be especially mindful of the importance of avoiding unnecessary complexity, which may undermine understandability and clarity, given the wide range of professionals used for various purposes around the world.

G. Implications for any Specific Persons or Groups

52. This project will aim to serve the interests of relevant stakeholders by addressing key issues and challenges and has implications for a wide range of stakeholders in the financial and non-financial reporting supply chain. These include:

(a) Users of sustainability information ("the users") – this may include a broad range of stakeholders, including investors, lenders, and other creditors, who may use the sustainability information to make capital asset allocation decisions, as well as other users who may be interested in the impact of the organization, including consumers, taxpayers, employees, competition and prudential authorities, central banks and bodies in charge of financial stability.
oversight, and those granting public contracts. It may also include suppliers and nongovernmental organizations.

(b) PAs in sustainability reporting and assurance; and other sustainability assurance providers who are not PAs.

(c) Those in charge of adoption, implementation, and enforcement of the standards as well as monitoring of the capital markets who rely on such standards – including firms that are subject to the requirements of the Code and/or national ethics and independence standards that are based on the Code; NSS and IFAC member bodies that have adopted the Code or used it as a basis or a benchmark for their own ethics and independence standards; regulators and inspectors; market authorities; public sector bodies; and professional accountancy organizations.

(d) Preparers – management, for entities of all sizes, in either the public or private sectors.

(e) Those charged with governance (TCWG) in relation to their interactions with auditors on independence matters, and the regulatory and audit oversight community in relation to enforcement of independence requirements.

(f) Small-medium Entities and Practitioners (SME/ SMP) – Depending on the nature of the proposals, there may be particular implications for smaller practices that audit small- and medium-sized entities. The IFAC SMP Advisory Group will be kept apprised of developments to ensure that the IESBA receives appropriate input from the Committee at key stages of the project.

53. In line with the PIF, standard setting that is in the public interest requires a process that gathers views from all stakeholders, with a focus on assessing the merits of the various stakeholder views, irrespective of whether the views are a majority or a minority. The public interest of standards cannot be ensured through a mere aggregation of all stakeholder interests, rather the public interest requires weighing and balancing all stakeholder views.

54. In order to address the public interest as contemplated by the PIF, and to achieve the objectives of this project proposal, the project will:

(a) Consider all stakeholder input and identify the different stakeholder interests that affect the overall objectives that will achieve the public interest;

(b) Appropriately weigh the input in terms of the public interest impact of the relative stakeholder interests; and

(c) Appropriately balance alternative outcomes in terms of the expected responsiveness to the public interest.

Although the PIF sets out a framework for how the public interest will be addressed, the approach for considering stakeholder interests and how they are weighed is largely consistent with how

30 See the PIF’s sections on “For whom are standards developed?” and “How is the public interest responsiveness of a standard assessed?” (on pages 20-21 and 23-24, respectively, of the Monitoring Group’s report).

31 This project will recognize the importance of all stakeholders but will focus on users of sustainability reporting. See the PIF’s section on “For whom are standards developed?” (on pages 20-21 of the Monitoring Group’s report).

32 See the PIF’s section on “How are the interests of users best served?” (on pages 21-22 of the Monitoring Group’s report).
stakeholder input is currently considered on IESBA’s projects (i.e., judgment is applied).

H. Development Process, Project Output and Project Timetable

Development Process

55. The project will follow the IESBA’s due process, including seeking input and advice from the IESBA CAG and the perspectives of the NSS.

Project Output

56. The project output will be informed by the input from consultation with stakeholders. Expected outputs will include:

- Profession-agnostic ethics and independence standards for sustainability assurance engagements. The IESBA will explore packaging the standards under either Option (a) or Option (b) below:
  
  (a) Revisions to the Code, including sustainability-related independence provisions that are either integrated in Part 4A of the Code which applies when PAs undertake audit and review engagements; or as a new Part 4A* that would apply to sustainability assurance engagements. This approach would also involve the development of a stand-alone non-authoritative guidance document to explain how to apply the Code in its entirety when undertaking sustainability assurance engagements. The primary user of this guidance document would be sustainability assurance practitioners who are not PAs and who would apply a comprehensive Code of Ethics for the first time.

  (b) A stand-alone set of ethics and independence standards for sustainability (either in a separate Handbook or a new Part 5), leveraging the extant ethics and independence standards that apply with respect to audits of financial statements.

- Revisions to Parts 1 to 3 of the Code to provide specific ethics requirements and guidance relevant to sustainability reporting.

57. At its November 1, 2022 meeting, the IESBA agreed to defer a strategic decision relating to the packaging of the profession-agnostic ethics and independence standards for sustainability assurance engagements until it has duly considered the input from stakeholders. Until then, the IESBA agreed to make as much progress as possible on the technical issues (summarized in Section E of this paper). The IESBA plans to revisit proposals relating to the project output having regard to the learnings and insights from the project Task Force’s stakeholder consultations. It is anticipated that such a discussion will occur during the IESBA’s June 2023 meeting.

58. Depending on the issues identified, the project Task Force may bring forward other relevant matters for the IESBA’s consideration. These may include recommendations for the development of non-authoritative material or issues to be addressed as part of future standard-setting projects.

Project Timetable

59. Subject to the IESBA’s approval of the project proposal, this project will commence immediately.

60. The IESBA’s sustainability workstreams are being progressed at an accelerated pace so that the project outputs can be available at the same time as the new sustainability-related standards being
developed by the IAASB and the ISSB.

61. Additional IESBA meetings will need to be scheduled each quarter to facilitate discussions about specific matters. Consideration should also be given to holding a special meeting with the NSS and the CAG in Q1 of 2023.

62. The table below provides an indicative timeline for the sustainability project. This timeline is subject to refinements based on the learnings and insights from stakeholder consultation, including the feedback from the NSS, the CAG and global roundtables.

63. The IESBA will prioritize the project and allocate sufficient Board plenary time to deliberate significant matters. It will also allocate sufficient time to consult with:
   - Key stakeholders (such as regulators, assurance oversight bodies, other standard setters and the GPPC) and experts in sustainability and assurance.
   - The CAG or SAC, as appropriate, on significant issues relevant to the project.
   - The PIOB on public interest issues relevant to the project.

<table>
<thead>
<tr>
<th>Timing</th>
<th>Milestone</th>
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<tbody>
<tr>
<td>December 2022</td>
<td>Discussion of project proposal with IESBA</td>
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<tr>
<td></td>
<td>IESBA approval of project proposal</td>
</tr>
<tr>
<td>February-March 2023</td>
<td>Discussion of issues with NSS, IESBA CAG and IESBA</td>
</tr>
<tr>
<td>April-May 2023</td>
<td>Global roundtables</td>
</tr>
<tr>
<td>April-June 2023</td>
<td>First read of proposals to IESBA</td>
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<tr>
<td>September 2023/ December 2023</td>
<td>Discussion with IESBA CAG</td>
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<tr>
<td></td>
<td>IESBA consideration and approval of Exposure Draft (ED)</td>
</tr>
<tr>
<td>June 2024</td>
<td>High-level update to IESBA</td>
</tr>
<tr>
<td>September 2024</td>
<td>Discussion of significant matters raised on ED and Task Force responses</td>
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<tr>
<td></td>
<td>with SAC</td>
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<tr>
<td></td>
<td>Full review of ED responses and first read post-exposure with IESBA</td>
</tr>
<tr>
<td>December 2024</td>
<td>IESBA approval of final pronouncement</td>
</tr>
</tbody>
</table>

33 Under the IESBA’s Due Process and Working Procedures, the exposure period for a draft international pronouncement issued by the IESBA is ordinarily 90 days, however a shorter or longer exposure period may be set when appropriate. Given this project is a focused standard setting project, the 90 days comment period appear to be sufficient. The exposure period is determined concurrently with the approval of the exposure draft, which may in turn result in adjustments to the overall timeline for the completion of the project.
I. **Resources Required**

64. The IESBA will:

- Assign two IESBA Principals and use a secondee from the UK Financial Reporting Council to provide technical staff support for the project. The technical staff work will be overseen by the IESBA Program and Senior Director.

- Establish a sustainability project Task Force comprising two drafting teams, one for each workstream:
  - This will allow the two inter-related and inter-connected sustainability workstreams to progress concurrently and at an accelerated pace. Each drafting team will comprise up to four members drawn from the Board and the pool of Technical Advisors. The drafting teams will coordinate their work closely with each other.
  - An IAASB member will be invited to join the project Task Force as a correspondent member.

- Establish a Sustainability Coordination Working Group (the IESBA SCWG)\(^{(34)}\) comprising of:
  - The Chairs of the drafting teams for Workstreams 1 and 2;
  - The IESBA Chair; and
  - The IESBA Program and Senior Director.

The IESBA SCWG will be responsible for overseeing the coordination of the work on the project. It will also engage in ongoing and timely coordination and engagement with IOSCO, IAASB, ISSB and other key stakeholders.

\(^{(34)}\) The IESBA SCWG would be responsible for making strategic decisions and would not be responsible for drafting. The Group would also have primary responsibility for stakeholder outreach and consultation.
Appendix 1

Comments by Standard-Setting Board (SSB)/IFAC Technical Managers

Due process requires that project proposals be circulated to SSB Staff and IFAC Staff for the technical areas within, or supported by, IFAC for comments on any matters of possible relevance to the project.

Kevin Dancey (CEO – IFAC) on behalf of:

- IFAC Quality and Development Department
- IFAC Education Initiative
- IFAC Professional Accountants in Business (PAiB) Advisory Group
- IFAC Small and Medium Practices (SMP) Advisory Group
- Transnational Auditors Committee (TAC)

[insert]

Senior Staff to International Auditing and Assurance Standards Board (IAASB)

[insert]

Senior Staff to the International Public Sector Accounting Standards Board (IPSASB)

[insert]