IESBA International Ethics Standards Board for Accountants®

Sustainability – Readying Ethics and Independence Standards



Mark Babington, IESBA Member | Working Group Chair

IESBA Meeting

September 12-17, 2022

Recap: WG Objectives

Agreed at IESBA's June 2022 meeting

- Develop a strategic vision to guide IESBA's standard-setting actions in relation to sustainability reporting and assurance
  - ➢IESBA will be asked to approve project plan in December 2022
- Undertake awareness raising activities to highlight IESBA's role and the applicability of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* to sustainability reporting & assurance
- Conduct fact finding, including extensive stakeholder outreach to inform standard setting projects and other workstreams
- Coordinate activities closely with others, in particular IAASB and ISSB

Matters for Consideration

1. Meeting participants are asked to consider and react to the presentation, in particular, the WG's recommendation regarding the planned approach and timeline for IESBA's standard setting activities related to sustainability reporting and assurance
2. Meeting participants are asked whether they believe that the WG's recommendations sufficiently address the public interest

Developments and Activities Since June 2022

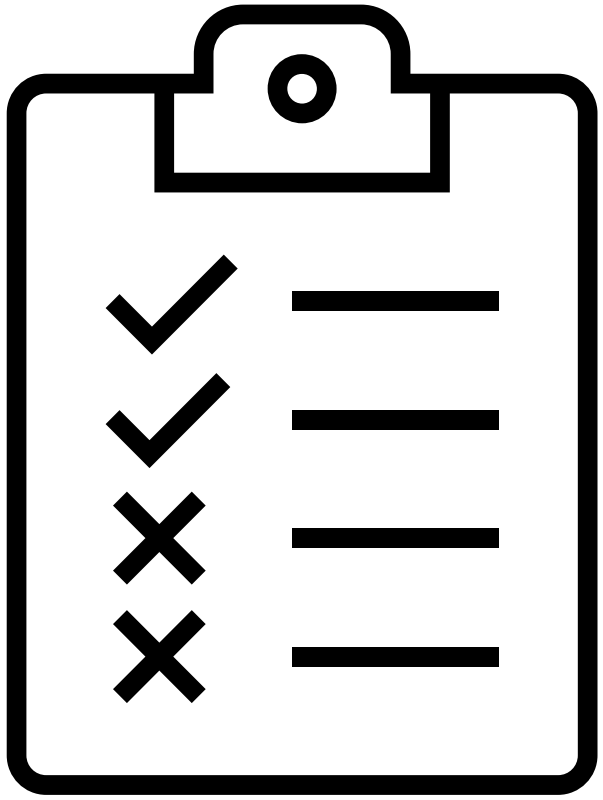
- Jun 13 – IESBA issues press release, indicates its commitment to "readying global ethics and independence standards timely …"
- Jun 24 – IESBA submits comment letter to ISSB
  - IAASB also submits a comment letter
- Jun 30 – Final text of EU's Corporate Sustainability Reporting Directive (CSRD) published
- Jul 7 – FSB issues release re progress made on addressing climate-related financial risks
  - Recognizes IESBA and IAASB role in developing baseline global standards for assurance, ethics and independence
- Sept 6 – IAASB Sustainability Task Force Chair and Staff meeting

Comment Deadlines
US SEC – June 17, 2022
ISSB – July 29, 2022
EFRAG – August 8, 2022

*"We have **committed** to finalizing a project plan by December 2022 with regard to the **development of fit-for-purpose, globally applicable ethics and independence standards for sustainability reporting and assurance by professional accountants**. We look forward to working in partnership with the ISSB, as well as with the IAASB, as we develop the necessary standards pillars of the sustainability reporting infrastructure in a timely manner, and build on our initial dialogue ..."*

IESBA's letter to ISSB– June 2022

July 25-26 WG Meeting



Developed recommendations to inform IESBA standard-setting

- ❑ Discussed specific options put forward at June 2022 Board meeting
- ❑ Considered relevant legal/ regulatory developments (e.g., CSRD final text)
- ❑ Discussed the meaning of public interest in the context of sustainability reporting and assurance
- ❑ Reviewed Code's provisions from a "sustainability lens"; identified areas for potential enhancements and revisions to ethics and independence provisions
- ❑ Considered SWP survey respondents' responses to Q1-Q3
- ❑ Considered respondents' responses to Q11 of Technology ED

Other Matters

- ❑ Provided final input on IESBA Staff publication on greenwashing
- ❑ Agreed to specific awareness raising activities/ communication plan (e.g., launch webpage, articles, webinar focused on independence issues)
- ❑ Recommended strategy and approach re progressing discussions about extending the Code's provisions to assurance providers who are not professional accountants

WG's Current Analysis & Thinking

- Parts 1-3 of the Code already provide applicable provisions for sustainability reporting; however, some enhancements needed
  - Refine terminology; provide context and topic-specific examples for PAIBs (especially S220 and S230); it will be important to consider Technology-related revisions being finalized by TTF
  - Leverage S220 to develop a new section (S315?) for PAPPs/ firms engaged to prepare and present information/ sustainability-related information (***currently a gap in Code***)
- International Independence Standards
  - Final text of CSRD touch on several topics in Part 4A; raise questions about scope/ purpose of provisions in Parts 4A versus 4B
  - More robust independence provisions in Part 4A should apply when assuring information that is: (i) prepared under a general-purpose (fair presentation) framework; and (ii) is of heightened public interest
    - Approach aligns with the conceptual framework that underpins IFRS and ISSB standards
  - Clarify that sustainability assurance providers should be independent of the entity; and not only of the subject matter information

The Code's fundamental principles and conceptual framework as drafted are fit for purpose; Provisions in Part 4A are more suitable for sustainability assurance engagements

Principles-based provisions needed to accommodate broad range of topics and evolving nature of sustainability reporting

***Sustainability** information **is of heightened public interest; practitioners who provide assurance** on sustainability reports **should be subject to same the ethics/ independence standards** as auditors of f/s*

PAIB Considerations

- Although the Code (Parts 1-2) already provide some requirements and guidance for PAIBs, the WG notes that:
  - PAIBs, especially CFOs-types are not always familiar with the provisions in the Code that apply to them
  - In some jurisdictions, PAIBs are not always required to be members of a professional accountancy organization, so the IESBA Code does not apply to them
- The requirements in Code (including those in Part 1-2 that apply to PAIBs) are principles-based and generic
  - For example, there is an open question about whether the existing requirement for performing professional activities that do not require compliance with a relevant framework (i.e., R220.6 to 220.6 A2) is appropriate in a sustainability reporting context
- Is there are need for sustainability-related ethical framework (similar to the approach being taken for tax (See Agenda Item 3)

Independence – Options Considered



WG believes that due to public interest nature of sustainability reports, Part 4B is no longer an appropriate set of independence provisions that should apply when providing assurance

- **Light touch**: Limited refinements to Parts 4A and 4B to provide sustainability-related context and guidance
- **Measured approaches:**
  - A. Explain within a new Part 4 which set of independence provisions (Part 4A or Part 4B) that apply to specific assurance engagements, including sustainability-related engagements
  - B. Retain Parts 4A and 4B and develop a new Part C to expressly deal with sustainability-related information
- **Substantive rewrite**: Redraft Part 4B to incorporate material from Part 4A that is relevant when providing assurance on sustainability-related information

Matters to Consider in Revising IIS

- Stakeholders, including regulators are calling for profession agnostic standards
  - Priority will be on developing revisions to the Code for professional accountants (PAs)
  - However, proposed revisions will be drafted and packaged in a manner that makes the Code easily accessible to professionals who are not PAs
- A measured approach is more likely to result in an accelerated response; will align with IAASB's approach
  - Two potential ways to achiever a measured approach; important to consider the pros and cons in deciding on the way forward
  - Input from regulators, sustainability assurance providers, and IAASB is critical

Measured Approaches – WG's Views

Option A – Develop limited revisions to the existing International Independence Standards that will among other matters clarify which set of provisions (i.e., Part 4A or 4B) applies

- Approach is consistent with direction taken by the EC and SEC → the same ethics/ independence provisions that apply to audits of f/s apply to sustainability assurance
- Expanding the more robust independence provisions in Part 4A to sustainability assurance engagements might have practical challenges
  - Sustainability covers a broad range of matters; questions as to whether the more stringent independence provisions are always applicable
  - Consider whether to describe "*assurance engagements of significant public interest*"
  - Analyze and provide guidance for all scenarios (e.g., when auditor of f/s also provide assurance on sustainability information vs when they do not)

Option B – Develop a new set of independence provisions for sustainability assurance engagements (i.e., Part 4C)

- Simple approach that doesn't disrupt the existing provisions in the Code
- Easier to "market" a new Part of the Code
- Approach would differ from the EC's final CSRD text and SEC proposals
- Adding a new Part might create the wrong impression that the existing independence provisions isn't sufficiently robust for sustainability assurance
  - This might present risks to the timely adoption and implementation of NAS, fees and PIE related enhancements to the Code
- With the move towards integrated reporting, a new Part 4C would have a limited "shelf-live"
- Approach will result in duplication

Overview of WG Recommendations

Three standard setting work streams, two timelines

Immediate priorities; ED by Sept 2023

1. Revise Code to provide specific ethics requirements and guidance for PAIBs and PAPPs that prepare and produce sustainability information/ data

(*Update terms/concepts and examples used in Code; clarify* ***when to rely on third party data suppliers****; add* ***examples to help navigate pressures to "greenwash" information****)*

2. Provide *specific criteria to explain which-independence provisions (i.e., Part 4A or Part 4B) should be used when assuring sustainability information*

(Clarify that Part 4A applies when providing ***assurance on information of heightened public interest*** *and* ***prepared using a general-purpose*** *reporting* ***framework;*** *Involves adding a new Part 4)*

Longer term project

3. Consider the need for a holistic review of Part 4B of the Code

(Undertake holistic Part 4B revision as a ***separate phase to be informed by extensive outreach****; there is a need to better articulate when it is appropriate to use what regulators perceive to be less rigorous independence provisions)*

A measured approach that doesn't involve a complete rehaul of extant Code; will align to IAASB's approach

Other Matters



Timely and extensive communication needed

- ❑ Target all stakeholders, not only PAs who prepare or assure sustainability-related information/data
- ❑ Highlight applicability of extant Code; but also preview changes to come; target Dec 2024 as possible effective date for the final pronouncement arising from immediate priorities
- ❑ Explore how best to expand Code to professionals other than PAs as a separate work stream (see slide 14)

Coordination and outreach

- ❑ Agile approach that integrates fact finding into the standards development process; accelerates revisions to the Code without under undermining due process
- ❑ Synchronize approach and progress with IAASB and ISSB

Permissibility of Services Provided by the Auditor of Financial Statements

- WG believes IESBA should express a view about whether:
  a) Auditors of f/s should be allowed to provide assurance on sustainability information
     - Consider the gradual shift towards integrated thinking and reporting
     - Consider approach being taken by regulators who are active in the sustainability space (e.g., SEC proposals positively encourage and final CSRD text does not prohibit)

  b) Auditors of f/s should provide sustainability assurance readiness engagements as a NAS to their audit clients
     - WG believes that NAS provisions in Part 4A, S600 should apply (subject to the quantum of work not posing a threat to independence); S950 does not include specific NAS prohibitions and is therefore not robust enough

Extending the Code's Provisions to Others

Progress as a separate workstream

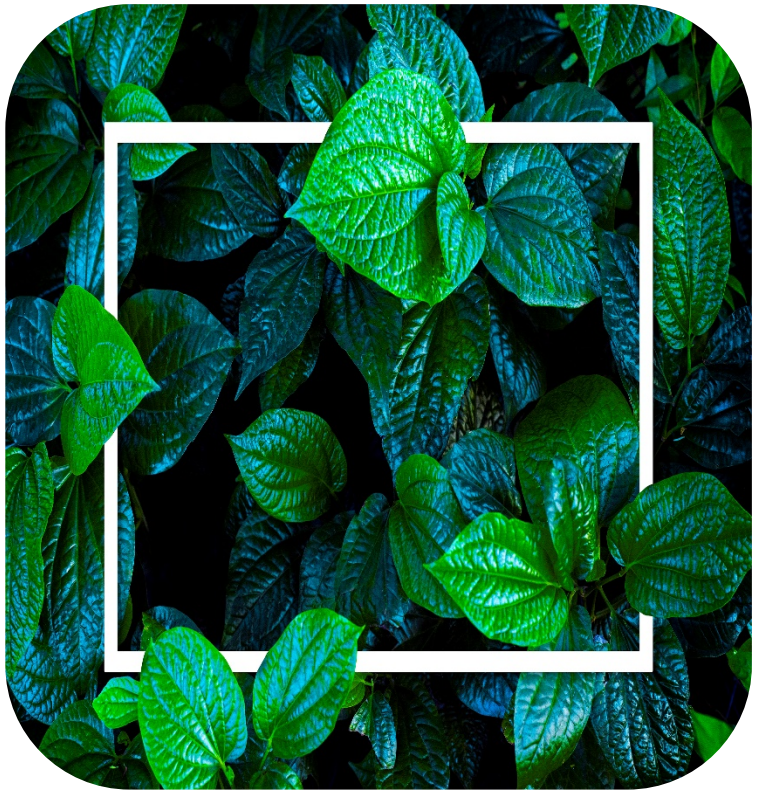
- Continue to highlight the public interest merits of establishing measures to ensure that sustainability reports are always prepared and assured by professionals who are subject to (and held accountable to) a high quality of ethics and independence standards
  - Important that IESBA continue to champion global discussions; supported by focused and timely work now
  - Prioritize focused and targeted "Chair-to-Chair" and "staff-to-staff" discussions with regulators, including IOSCO, FSB and other MG members
  - Develop a forum to consider the perspectives of PAOs and NSS
  - Longer term actions should involve the development of a consultation paper and extensive stakeholder dialogue about way forward (e.g., roundtables)

Questions/ Comments



Draft Staff Guidance on Greenwashing

- Staff publication highlights the Code's provisions that help address stakeholders' concerns re greenwashing
  - Q&A format with questions based on a review of real-life cases
- Staff publication was developed with input from:
  - WG members
  - IESBA members
  - Staff of IFAC and IAASB
- Document was also circulated to Staff of IOSCO, GRI and UK FRC
- Subject to the IESBA's feedback, the Staff publication will be finalized and issued after the September meeting



Questions/ Comments



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Appendix – Overview of the IESBA Code

ACCESS THE CODE *www.ethicsboard.org/international-code-ethics-professional-accountants*



Overview of the Code

PART 1

Complying with the Code, Fundamental Principles and Conceptual Framework

(Sections 100 to 199)

(All Professional Accountants)

PART 2

Professional Accountants in Business (PAIBs)

(Sections 200 to 299)

(*Part 2 is also applicable to individuals PAPPs when performing professional activities pursuant to their relationship with the firm*)

PART 3

Professional Accountants in Public Practice (PAPPs)

(Sections 300 to 399)

PARTS 4A & 4B

International Independence Standards

Part 4A—Independence for Audits & Reviews

(Sections 400 to 899)

Part 4B—Independence for Assurance Engagements Other than Audit & Review Engagements

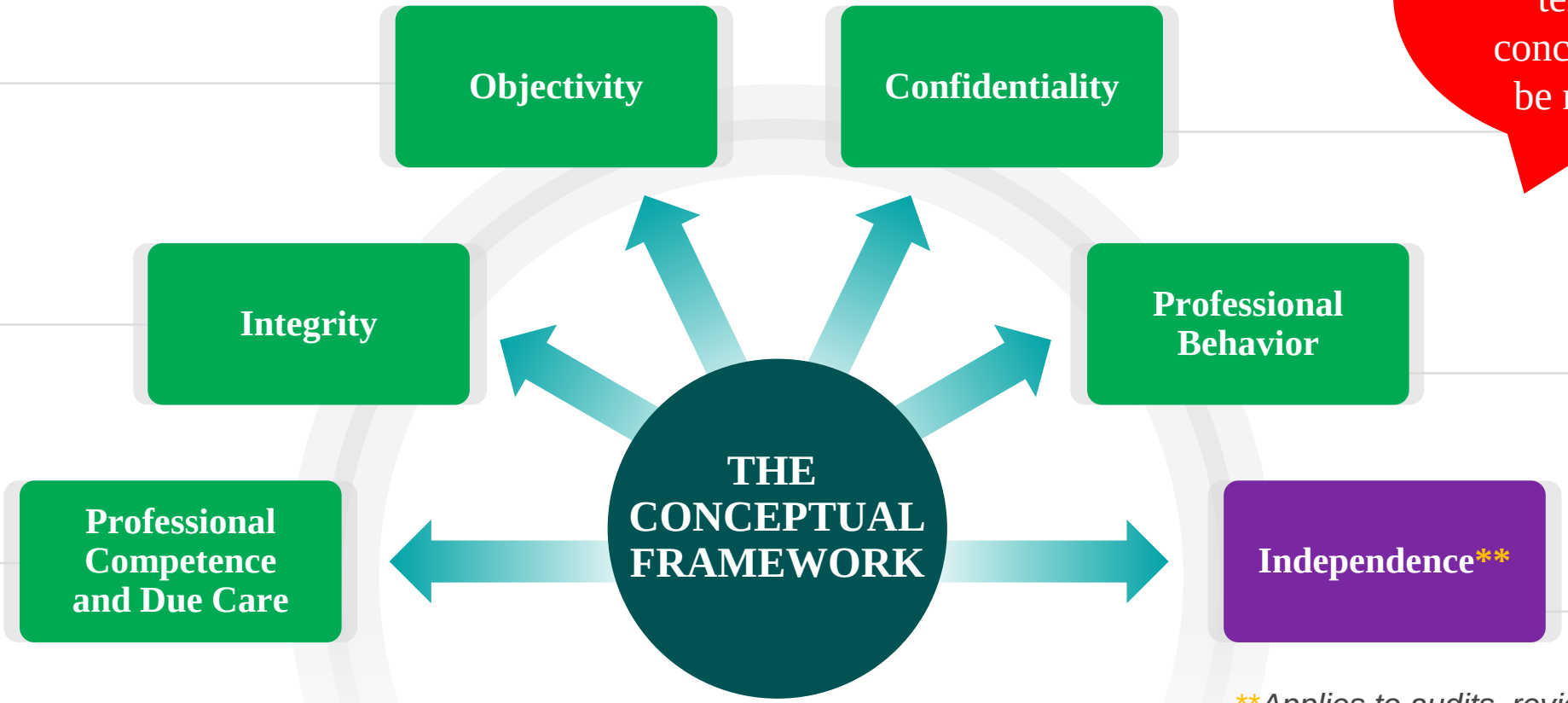
(Sections 900 to 999)

GLOSSARY

(*All Professional Accountants*)

Part 1 – The Fundamental Principles, Conceptual Framework and Independence (Sections 100-120)

Limited refinements to terms and concepts might be necessary



***Applies to audits, reviews and other assurance engagements*

Part 2 – PAIBs (Sections 200 – 270)

**Revisions anticipated to provide sustainability-related examples/ context

Section 200, *Applying the Conceptual Framework – PAIBs*

Section 210, *Conflicts of Interest***

Section 220, *Prep. & Pres. of Information***

Section 230, *Acting with Sufficient Expertise***

Section 240, *Fin. Ints, Comp… Linked to F/R*

Section 250, *Inducements, incl. Gifts …*

Section 260, *Responding to NOCLAR*

Section 270, *Pressure to Breach the FPs***

Part 3 – PAPPs (Sections 300 – 360)

Consider leveraging applicable material in S220 to develop a new section (S315?) for PAPPs

Section 300, *Applying the Conceptual Framework – PAPPs*

Section 310, *Conflicts of Interest*
Section 320, *Professional Appointments*
Section 321, *Second Opinions*
Section 325, *Objectivity of EQR and …*
Section 330, *Fees and Other Types of Rem.*
Section 340, *Inducements, incl. Gifts …*
Section 350, *Custody of Client Assets*
Section 360, *Responding to NOCLAR*

International Independence Standards

Add new Part 4; Clarify when to apply Part 4A versus Part 4B

Part 4A: Independence for Audit and Review Engagements

and

Part 4B: Independence for Assurance Engagements other than Audit and Review Engagements

Key revisions to International Independence Standards that are not yet effective

Global Ethics Board Expands Universe of Entities that are Public Interest Entities

Expanded Public Interest Entity (PIE) Definition Complements Recently Strengthened International Independence Standards (IIS) in Relation to Non-Assurance Services and Fees Paid by Audit Clients

APR 11, 2022 | NEW YORK, NY | ENGLISH

IESBA Proposes Conforming Amendments to the Code Following Issuance of IAASB's Suite of Quality Management Standards

AUG 05, 2021 | NEW YORK, NY | ENGLISH

Global Ethics Board Takes Major Step Forward in Strengthening Auditor Independence

Comprehensive Package of New Measures to Safeguard Auditor Independence in Relation to Non-Assurance Services and Fees Paid by Audit Clients

APR 28, 2021 | NEW YORK, NY | ENGLISH

Part 4A – Audit & Review Engagements

Changes anticipated to title, introductory paragraphs etc to indicate new scope/ applicability

Section 400, *Applying the Conceptual Framework to Independence for Audits and Reviews*

Section 410, *Fees*
Section 411, *Compensation and Evaluation Policies*
Section 420, *Gifts and Hospitality*
Section 430, *Actual or Threatened Litigation*
Section 510, *Financial Interests*
Section 511, *Loans and Guarantees*
Section 520, *Business Relationships*
Section 521, *Family and Personal Relationships*
Section 522, *Recent Service with an Audit Client*
Section 523, *Serving as a Director or Officer of an Audit Client*
Section 524, *Employment with an Audit Client*
Section 525, *Temporary Personnel Assignment*
Section 540, *Long Association … with an Audit Client*
Section 600, *Provision of NAS to an Audit Client*
Section 800, *Reports on Special Purpose F/S that Include…*

Part 4B – Assurance Engagements Other than Audits & Reviews

Longer term project involving a holistic review of how Part 4B provisions are used in practice and what revisions are needed to ensure it remains fit for purpose

Section 900, Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audits & Reviews

Section 905, *Fees*
Section 906, *Gifts and Hospitality*
Section 907, *Actual or Threatened Litigation*
Section 910, *Financial Interests*
Section 911, *Loans and Guarantees*
Section 920, *Business Relationships*
Section 921, *Family and Personal Relationships*
Section 922, *Recent Service with an Assurance Client*
Section 923, *Serving as a Director/Officer of an Assurance Client*
Section 924, *Employment with an Assurance Client*
Section 940, *Long Association … with an Assurance Client*
Section 950, *Provision of NAS to an Assurance Client*
Section 990, *Reports that Include a Restriction on Use …*