

## Sustainability

### Report Back on September 2023 Consultative Advisory Group (CAG) Discussion

The table below contains extracts from the draft September 2023 IESBA CAG meeting minutes and how the Sustainability Task Force (Work Stream 1/ Work Stream 2) or IESBA has responded to the CAG participants' comments<sup>1</sup>.

Matters Raised	WS1 / WS2 / IESBA Responses
SCOPE OF INTERNATIONAL INDEPENDENCE STANDARDS IN PART 5	
Ms. Landell-Mills sought clarification regarding the types of sustainability assurance engagements that would not fall within the scope of Part 5.	At the September 2023 CAG meeting, Mr. Babington responded that sustainability information that is not prepared in accordance with a general-purpose framework, such as a special purpose framework, would be addressed under Part 4B of the Code instead of the new Part 5.
Mr. Orth noted that sustainability assurance practitioners (SAP) who are not PAs often provide certification-type sustainability engagements. He asked if there would be any independence implications if (i) a SAP provides both a certification-type engagement and an assurance engagement to the same client; and (ii) the outcome of such a certification-type engagement is used during the sustainability assurance engagement or the audit of the financial statements.	The International Independence Standards in Part 5 address the situations when a SAP provides a non-assurance service (NAS), such as certification type of engagements to the sustainability assurance client.
Mr. Norberg expressed support for the proposed approach regarding the scope of International Independence Standards in Part 5.	Support noted.
UPDATE ON KEY INDEPENDENCE ISSUES RELATED TO SUSTAINABILITY ASSURANCE	
Mr. Dalkin commented that the determination of whether a specific quality management standard is at least as demanding as ISQM 1 <sup>2</sup> would raise questions from stakeholders. He suggested that	Based on the feedback from IESBA and CAG members, WS1 proposes for IESBA's consideration in December 2023 that the provisions in Part 5 regarding the applicable quality management

<sup>1</sup> Refer to Agenda Item 1-E for the draft September 2023 CAG minutes including the list of CAG Representatives and their organizations.

<sup>2</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<p>the IESBA consider developing a framework and guidance for the evaluation of equivalence and what would be acceptable quality management standards.</p>	<p>standards recognize that as a prerequisite to a high-quality sustainability assurance engagement, the sustainability assurance standards require the sustainability assurance practitioner to implement an effective system of quality management.</p> <p>Given that the ethics and independence standards in Part 5 are framework-neutral, WS1 proposes that paragraph 5400.3f not only refer to the IAASB's sustainability assurance standard (ISSA 5000<sup>3</sup>) and ISQM 1 but also acknowledge that there may be other sustainability assurance frameworks.</p>
<p>Mr. Hansen asked if the IIS in Part 5 would also address the situation where the SAP provided services relating to internal control over the sustainability reporting, similar to internal control over financial reporting.</p>	<p>At the September 2023 CAG meeting, Ms. Sramko responded that Part 5 would also address that situation.</p>
<p>Mr. Thompson supported the proposal regarding the determination of PIEs in the context of sustainability assurance engagements. However, he asked whether it was aligned with the approach in the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD). Reflecting on that comment, Ms. Blomme noted that EU laws only mandate sustainability reporting and assurance for PIEs. She asked whether the IESBA had considered if that would create some inconsistencies with the proposed new IESBA standards, especially in the context of trying to achieve a level playing field.</p>	<p>At the September 2023 CAG meeting, Ms. Sramko responded that there are different regimes for PIE and non-PIE clients in the equivalent independence standards in Part 4A of the Code applicable to audit engagements.</p>
<p>Mr. Hansen asked if the independence standards in Part 5 would apply only to sustainability assurance clients that are public interest entities (PIE).</p>	<p>At the September 2023 CAG meeting, Ms. Sramko explained that the International Independence Standards in Part 5 apply irrespective of whether the client is PIE if the engagement meets the criteria set out in Part 5.</p>

<sup>3</sup> Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

<p>Ms. Landell-Mills suggested that consideration should be given not only to who the SAP needs to be independent from but also who they need to be accountable to. In this regard, she noted that in the case of an audit of the financial statements of a listed entity, the auditor is accountable to shareholders who take part in the auditor's appointment and in the determination of audit fees. She questioned whether the approach would be similar with sustainability assurance engagements.</p>	<p>At the September 2023 CAG meeting, Mr. Babington responded that he would expect that the same requirements on accountability and transparency for audit engagements should apply. However, he added that discussions regarding what should be the appropriate approach remain ongoing across jurisdictions, recognizing that the current developments in the EU may be a high-water mark compared to the progress in other jurisdictions.</p>
<p>Mr. Greene expressed his concerns about how the IESBA would ensure compliance with the Code if there is no regulatory monitoring yet for non-PA SAPs. He believed that without proper transparency on enforcement, the IESBA's Sustainability project could give the wrong perception that there was supervision for all practitioners.</p>	<p>At the September 2023 CAG meeting, Mr. Babington clarified that the IESBA does not have monitoring and enforcement powers, which are matters for local jurisdictions to determine, perhaps with some involvement from international regulatory bodies, such as IOSCO. He added that the IESBA will be careful in explaining this point in the explanatory memorandum to the Exposure Draft. He also stressed the importance of the IESBA's ongoing coordination with the IAASB as the IAASB's standards will address the reporting on the assurance side.</p>
<p>Mr. Thompson pointed out that sustainability assurance clients would likely turn to the SAP for advice on sustainability reporting issues, especially when they are reporting on sustainability information for the first time. He noted that this could raise several independence challenges and put pressure on SAPs. He asked whether WS1 and the IESBA had considered such situations.</p>	<p>At the September 2023 CAG meeting, Ms. Sramko explained that WS1 proposed that the new Part 5 set out the same approach regarding providing advice and recommendations to a sustainability assurance client as Part 4A of the Code does with respect to audit clients.</p>
<p>Observing that since ISSA 5000 does not specifically address groups, and recognizing the importance of alignment between the IESBA's and IAASB's standards, Ms. Blomme queried whether this will have any impact on how the IESBA develops its proposed independence standards.</p>	<p>WS1 recognizes that the IAASB's draft ISSA 5000 addresses group sustainability assurance engagements only in a general, overarching way. However, WS1 noted that sustainability reporting will be mandatory in a number of jurisdictions mostly for entities that operate as groups., For example, in the EU, the Corporate Sustainability Reporting Directive (CSRD) already requires entities to report their sustainability information on a consolidated basis from 2025.</p>

	<p>Furthermore, the ethics, including independence, standards in Part 5 are neutral with respect to the sustainability assurance framework. If sustainability assurance standards other than ISSA 5000 explicitly address the situation where a sustainability assurance practitioner expresses an opinion on sustainability information that includes information from more than one entity or business unit, practitioners complying with such assurance standards will need to also comply with independence standards that apply to such engagements.</p> <p>At the September 2023 CAG meeting, Mr. Babington clarified that WS1 proposes including that section in the draft standards for public consultation and asking for stakeholders' comments on this specific issue.</p>
<p>Mr. Akihito expressed his support regarding the inclusion of the proposed section addressing group sustainability assurance engagements. He emphasized the need for close coordination between the IESBA and IAASB on this matter once the IAASB considers developing specific assurance standards for group engagements.</p>	<p>Point taken.</p>
<p>In relation to using the work of another practitioner, Ms. Blomme suggested that the IESBA take a pragmatic approach that would allow SAPs to rely on and use the assurance work of other practitioners as appropriate.</p>	<p>Point taken.</p>
<p>Regarding the approach to addressing the relationship between the SAP and an entity within the client's value chain, Mr. Hansen sought clarification if the proposed application of the "knows or has reason to believe" principle is expected to be the same as in the case of component auditor firms outside of the group auditor firm's network.</p>	<p>At the September 2023 CAG meeting, Ms. Sramko confirmed that it is the same principle.</p>
<p>ETHICS STANDARDS FOR SUSTAINABILITY REPORTING – SCOPE</p>	

<p>Mr. Thompson queried the mechanism by which practitioners who are not PAs (non-PAs) could adopt the IESBA standards in the future. He suggested the option of co-branding the Code with another professional body as a possibility.</p>	<p>At the September 2023 CAG meeting, Ms. Dias noted that making the Code applicable to all preparers, whilst of strategic importance, requires an integrated approach involving different stakeholders, such as those charged with governance (TCWG), that goes beyond simply setting profession-agnostic standards.</p>
<p>Mr. Ishiwata and Dr. Lawal Danbatta suggested that guidance material could be provided for non-PAs.</p>	<p>Point noted.</p>
<p>Mr. Ishiwata commented that expanding the scope of the ethics standards may be considered when the sustainability reporting market becomes more mature and that careful consideration of feedback from a broad range of stakeholders is essential.</p>	<p>Point noted.                  In December 2023, as part of its discussion on the draft Strategy and Work Plan 2024-2027 (SWP), the IESBA will discuss and finalize its proposed strategic focus on expanding the scope of the Code and a proposed phased approach of starting with the development of standards for all preparers of sustainability information.</p>
<p>Ms. Meng highlighted the challenge of enforcement with respect to non-PAs. She stressed that a low level of voluntary compliance by non-PAs might impact the authority of the Code.</p>	<p>Point noted.                  As part of its proposed work stream on expanding the scope of the Code to all preparers of sustainability information under its draft SWP, the IESBA plans to conduct extensive outreaches with stakeholders including those from the regulatory community.</p>
<p>Mr. Hansen suggested that there should be some explanation from the IESBA about its decision to limit the scope of the ethics standards for sustainability reporting to PAs only under its Sustainability project.</p>	<p>Point accepted.                  Such an explanation will be included in the Sustainability Explanatory Memorandum (EM).</p>
<p>Ms. Blomme appreciated the rationale for the IESBA's proposal but encouraged the IESBA to maintain a focus on the ultimate goal of setting the same ethics standards for all preparers of sustainability information and thus creating a level-playing field.</p>	<p>Point noted.                  In December 2023, as part of its discussion on the draft SWP, the IESBA will discuss and finalize its proposed strategic focus on expanding the scope of the Code and a proposed phased approach of starting with the development of standards for all preparers of sustainability information.</p>

<p>Ms. Landell-Mills queried why the regulatory community did not consider having profession-agnostic standards for all preparers as a priority. She suggested that the voice of investors and other users, such as ICGN, can be a helpful catalyst in setting clear user expectations.</p>	<p>Point noted.</p>
<p>Dr. Lawal Danbatta commented that, from a regulatory perspective, the IESBA's standards need to demonstrate consistency with corporate governance standards used in jurisdictions, such as the OECD's corporate governance principles.</p>	<p>Point noted.</p>
<p>Mr. Greene expressed concerns about how to enforce non-PAs' compliance with the new ethics and independence standards.</p>	<p>Since monitoring and enforcement are outside its remit, the IESBA will aim to liaise with relevant regional and local bodies on this issue.</p>
<p>Mr. Dalkin gave the example that within the public sector in the United States, the Government Accountability Office has a set of auditing standards that include standards for practitioners who are not independent public accountants (IPAs). However, for the ethics and independence standards, all IPAs and non-IPAs must comply with them to ensure consistency.</p>	<p>Point noted.</p>
<p>ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE – SCOPE</p>	
<p>Mr. Hansen queried about the purpose of the proposed encouragement in the introduction of the new Part 5 of the Code, for non-PAs to apply the Code when providing a service not covered by Part 5.</p>	<p>At the September 2023 CAG meeting, Ms. Martin clarified that whilst the proposed scope covers all the professional services a SAP provides to a sustainability assurance client, professional services undertaken for non-sustainability assurance clients are outside the scope of the project.</p>
<p>Drs. Orth and Lawal Danbatta, Mr. Dalkin and Ms. Peters stressed the importance of developing a common set of standards for all SAPs in order to achieve a level playing field between PAs and non-PAs.</p>	<p>Part 5 will apply to all SAPs, regardless of whether they are PAs or non-PAs.</p>
<p>Ms. Peters and Mr. Hansen expressed the view that the scope of the ethics standards in the proposed Part 5 seems complicated. Ms. Peters</p>	<p>Point noted.</p>

<p>further queried how stakeholders, such as investors, would know which ethics standards the SAP has applied and how this information would be communicated to stakeholders.</p>	<p>At the September 2023 meeting, the IESBA did not raise any substantive concerns regarding the scope of ethics standards set out in the proposed Part 5.</p> <p>The introduction in Part 5 along with the explanation in the EM will make the scope sufficiently clear. IESBA will also seek input from stakeholders on this point as part of its public consultation.</p>
<p>Mr. Dalkin suggested that the observation about the IESBA not being able to enforce these standards on non-PAs might be perceived as reducing the requirements for non-PAs.</p> <p>Whilst agreeing with the proposed scope, Prof. Cela queried the enforceability of the ethics standards on practitioners who are not PAs.</p>	<p>Since monitoring and enforcement are outside its remit, the IESBA will aim to liaise with relevant regional and local bodies on this issue.</p>
<p>Dr. Manabat queried if the encouragement for non-PAs only relates to sustainability assurance but not sustainability reporting.</p>	<p>The encouragement relates to all activities and services not covered by Part 5, thus including sustainability reporting.</p>
<p>COMMUNICATING NON-COMPLIANCE WITH LAWS AND REGULATIONS (NOCLAR) TO THE AUDITOR AND THE SUSTAINABILITY ASSURANCE PRACTITIONER</p>	
<p>Ms. Landell-Mills, Dr. Orth and Mr. Fritz expressed the view that the proposed requirement for an auditor and a SAP to consider communicating NOCLAR or suspected NOCLAR to each other should be elevated to a requirement to communicate if permitted by laws and regulations. Among the reasons for their view, they highlighted a responsibility for the auditor to report the incident to the SAP and vice versa, as well as the difficulty in enforcing a requirement to consider. In addition, Ms. Landell-Mills believed that the recipients of any communication should be extended to include shareholders.</p>	<p>At the September 2023 CAG meeting, Ms. Leal clarified that under the NOCLAR framework, management and TCWG have the primary responsibility to communicate NOCLAR to third parties, including the auditor or SAP. She added that one of the proposed factors for the auditor or SAP when considering communicating NOCLAR to the other is whether management or TCWG have already done so. Further, Mr. Kwan noted that the extant and proposed NOCLAR provisions also require an auditor and SAP to report NOCLAR and suspected NOCLAR to management and TCWG.</p>
<p>Ms. Landell-Mills, Dr. Orth and Mr. Hansen suggested that incidents of greenwashing should be reported as part of the NOCLAR framework.</p>	<p>Incidents of greenwashing that constitute a breach of laws or regulations are covered by the NOCLAR regime.</p>
<p>DEFINITION OF "SUSTAINABILITY INFORMATION"</p>	
<p>Mr. Thompson supported the proposed definition and expressed the view that the ISSA 5000</p>	<p>Point noted.</p>

<p>definitions should have been aligned to the IESBA definition since ethics is a broader, overarching concept.</p>	
<p>Whilst acknowledging the need for two different definitions of “sustainability information,” Mss. Blomme and Riggs remarked that this might create confusion among users and impact buy-in from stakeholders.</p>	<p>Point noted.</p> <p>The EM will include the rationale for its proposed definition of “sustainability information” and explain the IESBA’s view that the two Boards’ proposed definitions are sufficiently aligned.</p> <p>IESBA will also seek input from stakeholders on this point as part of its public consultation.</p>