

**Meeting:** IESBA CAG

**Meeting Location:** New York

**Meeting Date:** March 6, 2023

# Agenda Item E

## Sustainability – Ethics (Work Stream 2)

### Objectives

1. To receive a report-back on the discussions at the September 2022 CAG meeting and to provide views on the Sustainability project proposal approved by the IESBA at its November-December 2022 meeting.
2. To receive an update on the upcoming global sustainability roundtables and to provide views on key matters under consideration regarding the development of ethics standards for sustainability reporting and assurance.

### Task Force

3. The Task Force comprises of two work streams:

Work Stream 1 (Independence)	Work Stream 2 (Ethics)
<ul style="list-style-type: none"> <li>• Mark Babington, Chair, IESBA Member</li> <li>• Jens Poll, IESBA Member</li> <li>• Channa Wijesinghe, IESBA Member</li> </ul>	<ul style="list-style-type: none"> <li>• Christelle Martin, Chair, IESBA Member</li> <li>• Vania Borgerth, IESBA Member</li> <li>• Richard Huesken, IESBA Member</li> <li>• Sung-Nam Kim, IESBA Member</li> </ul>
Supported by: <ul style="list-style-type: none"> <li>• David Clark, IESBA Technical Advisor</li> <li>• Marta Kramerius, IESBA Technical Advisor</li> <li>• Masahiro Yamada, IESBA Technical Advisor</li> </ul>	Supported by: <ul style="list-style-type: none"> <li>• Laura Friedrich, IESBA Technical Advisor</li> <li>• Chris Twagirimana, IESBA Technical Advisor</li> <li>• Kristen Wydell, IESBA Technical Advisor</li> </ul>

### Project Status and Timeline

4. In 2022, recognizing the foundational role of ethics and independence in the production, reporting and assurance of sustainability information, the IESBA committed to taking timely action to develop fit-for-purpose, globally applicable ethics and independence standards as a critical part of the regulatory infrastructure to support transparent, relevant and trustworthy sustainability reporting.

5. The IESBA established a Sustainability Working Group to, amongst other matters, conduct fact finding, undertake stakeholder outreach and awareness-raising activities as well as to develop a strategic vision to guide the IESBA's standard-setting actions in relation to sustainability reporting and assurance.
6. In its September 15, 2022 [statement](#), the International Organization of Securities Commissions (IOSCO) encouraged standard-setters' work on assurance of sustainability-related corporate reporting and welcomed the work of the IESBA and the International Auditing and Assurance Standards Board (IAASB) in this regard. In its statement, IOSCO particularly welcomed the two standard-setting Boards' plans to work towards high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support limited, and ultimately, reasonable assurance of sustainability-related information.
7. In October 2022, the IESBA released a staff-prepared Questions and Answers, [Ethics Considerations in Sustainability Reporting – Including Guidance to Address Concerns about Greenwashing](#).
8. At its November-December 2022 meeting, the IESBA unanimously approved two new projects with the following objectives:
  - (a) [Sustainability project](#):

To develop:

    - i. Revisions to the Code to address the ethics issues that might arise in sustainability reporting; and
    - ii. Profession-agnostic ethics and independence standards for use and implementation by all sustainability assurance practitioners (i.e., professional accountants and other professionals performing sustainability assurance engagements)
  - (b) [Use of Experts project](#):

To develop revisions to the Code to address:






    - i. Ethics and independence considerations for the use of an external expert in an audit or other assurance engagement;
    - ii. Ethics considerations regarding the involvement of an expert (internal or external to an employing organization or firm) in the preparation and presentation of financial and non-financial information, including sustainability information, and other activities; and
    - iii. Ethics considerations regarding the involvement of an expert (internal or external to a firm) in the provision of other services (such as tax planning and technology-related activities).
9. In approving the Sustainability Project, the IESBA also agreed that the Task Force would comprise two work streams as follows:
  - Work stream 1 on the development of profession-agnostic independence standards for sustainability assurance; and
  - Work Stream 2 on the development of ethics standards for sustainability reporting and profession-agnostic ethics standards for sustainability assurance.

## Report Back on September 2022 IESBA CAG Discussion

10. The Appendix includes extracts from the draft minutes of the September 2022 IESBA CAG meeting<sup>1</sup> and an indication of how the Sustainability Working Group, Sustainability Task Force or IESBA has responded to the CAG Representatives' comments.

## CAG Session (Work Stream 2)

11. At the March 2023 CAG meeting, Ms. Martin, Chair of the Sustainability Work Stream 2, will, amongst other matters, provide:
- An update on the IESBA's global roundtables on sustainability (**Agenda Item E-1**).
  - An update on IESBA-IAASB coordination, particularly on definitions (**Agenda Item E-1**).
  - An overview of Work Stream 2's proposal regarding whether the IESBA should develop ethics standards for sustainability reporting in a profession-agnostic way or for professional accountants only (**Agenda Item E-2**).
12. The following table is a summary of the topics to be covered by the Sustainability Work Streams 1 and 2 at the March 2023 CAG meeting:

Topics	Presented by WS 1	Presented by WS2
Update on IESBA's global sustainability roundtables (common to both WS)		
Update on IESBA-IAASB coordination (common to both WS)		
Position of ethics and independence standards for sustainability assurance – Integrated vs standalone approach (common to both WS)		
Independence considerations		
Ethics standards for sustainability reporting – profession-agnostic or for professional accountants only		

## Action Requested

13. CAG Representatives are asked to:
- (a) Note the report-back;
  - (b) Provide input to the matters raised in **Agenda Items E-1** and **E-2**.

## Next Steps

14. The IESBA will hold the four in-person global roundtables (Paris, Sydney, Singapore and New York City) and the two virtual roundtables in late March/early-mid April 2023.

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<sup>1</sup> The draft IESBA CAG minutes will be approved by the IESBA CAG at its March 2023 meeting.

15. Work Streams 1 and 2 will seek input from participants at the IESBA National Standard Setters meeting in June 2023.

## **Material Presented**

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|-----------------|--|
| Agenda Item E-1 | Slide Presentation: Update on global sustainability roundtables and on IESBA-IAASB coordination                    |
| Agenda Item E-2 | Issues Paper: Ethics Standards for Sustainability Reporting – Profession-Agnostic vs Professional Accountants Only |

## Appendix

### Report Back on September 2022 IESBA CAG Discussion

Matters Raised	Working Group/Task Force/IESBA Responses
<p>Mr. Hansen questioned whether the responsibility for sustainability assurance would be shared between an audit engagement partner and a key sustainability partner, or whether it would rest with a key sustainability partner when there is an integration of financial statements and sustainability information.</p>	<p>During the meeting, Mr. Babington responded that it would depend on jurisdictions and on the direction of travel over the next few years. He added that while sustainability-related work requires different skills and expertise, it might be that the audit engagement partner and the key sustainability partner could be the same person if that person has the appropriate skills and capabilities to be able to deliver the work. He indicated that the Sustainability Working Group (SWG) will continue to engage with stakeholders, including regulatory authorities, to inform the sustainability-related revisions to the Code.</p> <p>The Sustainability Task Force will continue to gather information from stakeholders through roundtables and other outreach.</p>
<p>Mr. Dalkin pointed out that there has been a significant increase in interest for independent public auditors (IPAs) to develop strong consulting arms to do sustainability reporting-related work. He indicated that the prevailing view in the United States is that the client can oversee an IPA who provides non-assurance services to an audit client. However, he highlighted that there are more risks if the audit firm is also providing sustainability consulting services. Accordingly, he wondered whether management would be able to oversee such consulting services. He therefore questioned whether there is a need for additional guardrails in the Code in this regard.</p>	<p>Point noted.</p> <p>During the meeting, Mr. Babington responded that the SWG was carrying out a gap analysis on the extant Code and that it would investigate the matter further and coordinate with the IAASB.</p>

Matters Raised	Working Group/Task Force/IESBA Responses
<p>Mr. Greene wondered how the Code would be enforced for individuals and firms that are not professional accountants (non-PAs).</p>	<p>During the meeting, Mr. Babington responded that the IESBA is in discussions with regulators because they are the key to requiring non-PAs to apply a consistent framework of ethics, including independence, standards. He also pointed out that if those charged with governance start to require non-PAs to comply with the Code and the ISAs for sustainability assurance engagements, that could be an attractive solution.</p> <p>Ms. Dias noted that the matter of enforcement is outside the IESBA's remit. She added that the question of the applicability of the IESBA's standards to non-PAs is even more relevant now than a few months ago as some major jurisdictions, such as the European Union (EU), have already decided to open their sustainability assurance markets to all providers.</p> <p>The IESBA will continue to discuss the issue of oversight and enforcement with IOSCO and other regulatory stakeholders.</p>
<p>Ms. Blomme expressed support for the project. She saw need for standards for both professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs) as both sustainability reporting and assurance are important. She also pointed out that there is an expectation for sustainability assurance providers who are non-PAs to use the IAASB's forthcoming sustainability assurance standard. She highlighted that it is that standard that could impose a requirement for these non-PAs to comply with the IESBA Code or other relevant ethical requirements, including independence requirements, that are at least as stringent as the IESBA Code. She pointed out that the IESBA Code already contains a lot of requirements and guidance that should be applicable to sustainability assurance engagements.</p>	<p>Support noted.</p> <p>During the meeting, Mr. Babington agreed and added that the SWG is working very closely with the IAASB to ensure that there is alignment between the work of the two Boards.</p> <p>In October 2022, the IESBA issued a staff <a href="#">publication</a> highlighting the relevance and applicability of the IESBA Code in combatting greenwashing.</p>

Matters Raised	Working Group/Task Force/IESBA Responses
<p>Mr. Ishiwata expressed support for the IESBA's commitment to progressing a sustainability project. Regarding IOSCO's mid-September 2022 public statement expressing support for the work of the IESBA and IAASB in developing profession-agnostic standards for sustainability assurance, he noted that IOSCO expects to continue engaging and collaborating with the IESBA and other stakeholders, having regard to the need to balance timeliness and due process. He also commented that it is crucial to have diversity in the Task Forces that will take the sustainability projects forward, both in terms of subject matter expertise and geography. He reiterated IOSCO's message about the importance of developing profession-agnostic standards that would apply to PAs and non-PAs equally in relation to sustainability assurance.</p>	<p>Support noted.</p> <p>During the meeting, Mr. Babington acknowledged the concern about diversity and resourcing for the anticipated Sustainability Task Forces. He added that it would be also important for the IESBA to speak with one voice on the issues.</p> <p>The composition of the Sustainability Task Force, which comprises two Work Streams, has taken geographic diversity into consideration and includes members with relevant expertise and diverse professional backgrounds.</p> <p>The approved project proposal for sustainability provides for the development by the IESBA of profession-agnostic ethics and independence standards applicable to sustainability assurance.</p> <p>Coordination between IESBA/ IAASB representatives and IOSCO representatives on the two Boards' sustainability projects is continuing.</p>
<p>Ms. Peters pointed out that from an investor perspective, it would need to be for a regulator to decide who should be subject to the same ethics, including independence, standards for sustainability assurance. She suggested that there might be a need for case studies as to how assurance might be delivered with respect to the application of the standards being developed by the International Sustainability Standards Board (ISSB). She added that over time, the range of sustainability-related subject matters that will require assurance will increase. Accordingly, the sustainability assurance providers will need to establish whether the assertions in previous sustainability reports are materializing. She was also concerned about the linkage between the financial statements and the sustainability reports, which she felt would be a real challenge in terms of assurance. She reiterated that case studies might help in a tangible way in this regard.</p>	<p>Point noted.</p> <p>During the meeting, Mr. Babington acknowledged that case studies could be useful. He noted that the IAASB standards have an advantage in that they deal with both financial and non-financial information whereas the Code deals with behavior. He observed that the sustainability area will be more challenging because of the prevalence of forward-looking information. He added that there are a number of steps ahead to travel.</p>
<p>Ms. Manabat commented that sustainability reporting is different from financial reporting in that</p>	<p>Point noted.</p>

Matters Raised	Working Group/Task Force/IESBA Responses
<p>the former applies an “Environmental, Social and Governance” (ESG) lens to the information. She noted that a major consideration is that sustainability reporting often involves an enormous amount of data and therefore technology is involved. She cautioned that from a capital markets perspective, there are questions as to the nature of sustainability reports that will meet market expectations. Accordingly, she advised the IESBA to be very careful and exercise due diligence in progressing work in this area. She also wondered about the implementation and enforcement of the standards by sustainability assurance providers who are not PAs.</p>	<p>The IESBA’s work will be informed by the outcome of the global roundtables planned for March and April 2023 as well as other outreach activities and research undertaken by IFAC and others.</p>
<p>Ms. Meng expressed support for the IESBA Staff publication on Greenwashing. She suggested that IESBA staff consider merging the first and third questions as they are related.</p>	<p>Support noted.</p> <p>The SWG discussed the suggestion and was of the view that merging the first and third questions would result in a long and complex response. The Staff and the Working Group intended to develop a comprehensive and user-friendly document that could efficiently highlight the applicability of the Code’s current provisions addressing the ethical challenges arising from greenwashing.</p>
<p>Ms. Peters commented that integrated reporting will be needed. She noted that financial statements should be confirmatory of sustainability information as the latter is very forward-looking. She added that sustainability information should be clearly and easily accessible and connected to the financial statements. She also highlighted the need to clearly demonstrate that sustainability information impacts enterprise value. Mr. Hansen noted that the challenge would be how to measure that impact. Mr. Greene noted that the key would be to have internal controls over sustainability reporting, similar to internal controls over financial reporting.</p>	<p>Point noted.</p> <p>During the meeting, Mr. Babington agreed that internal controls would be important. However, he noted that in the sustainability area, controls are less mature and, therefore, there will be questions as to whether they will be reliable.</p>



Matters Raised	Working Group/Task Force/IESBA Responses
<p>Mr. Stokhof expressed support for the initiative. He commented that an OECD analysis has shown that based on a sample of 3,000 listed corporations in 2021 representing half of the global market capitalization, 91% of the companies had commissioned assurance on their sustainability reports. He added that in his view a standard that “would be too heavy,” or that would not include transition measures, would be more likely to fail. Accordingly, he suggested that the IESBA be very thoughtful about the scope and scalability of the standards it will develop.</p>	<p>Support and point noted.</p> <p>The IESBA will take into account operability and scalability when developing its standards, in accordance with the Public Interest Framework.</p>