

Sustainability – Independence (Work Stream 1)

Report Back on March 2023 CAG Discussion

1. Below are extracts from the draft minutes of the March 2023 CAG meeting¹ and an indication of how the Workstream 1 of the Sustainability Task force or the IESBA has responded to the CAG's comments.

Matters Raised	Task Force/IESBA Responses
PRESENTATION OPTIONS FOR PROFESSION-AGNOSTIC STANDARDS FOR SUSTAINABILITY ASSURANCE ²	
Mr. Dalkin wondered about the incremental ethics and independence standards for sustainability assurance compared with the standards applicable to audit engagements. He noted that there would be significant duplication if the standards for sustainability assurance and those for audit were kept in two separate volumes if they would be largely the same.	At the meeting, Mr. Babington acknowledged that there would be some duplication compared with an integrated approach. However, he noted that there are areas where sustainability-specific material would be needed, for example, accounting and bookkeeping services would not apply in an independence context for sustainability assurance. In addition, it would be necessary to consider the different ways in which sustainability information could be produced.
Ms. Riggs wondered whether another option could be to take an “upgraded Part 4B” approach instead of using Part 4A as a base. She suggested that Part 4A might be better preserved for audits and reviews of financial statements, minimizing potential distractions from Part 4A's focus on financial statements. The advantages of this option would be to leave Part 4A alone; deliver the profession-agnostic solution many stakeholders are calling for, especially with respect to non-PAs; and avoid having to maintain two separate sets of standards. She suggested that this could be an option for	At the meeting, Mr. Babington responded that stakeholder feedback from outreach conducted to date indicates that the ethics and independence standards for sustainability assurance should be at the same level as for audits for sustainability assurance engagements of heightened public interest. This was also consistent with regulatory developments in some major jurisdictions, such as the Corporate Sustainability Reporting Directive (CSRD) in the EU. He added that a Part 4B approach would represent a fundamental change of direction but noted that the Task Force would consider it further.

¹ The draft September 2022 minutes will be approved at the March 2023 IESBA CAG meeting.

² Workstream 1 presented the following 3 different options for CAG Representatives' considerations:

- Option 1: An integrated approach that would encompass all the relevant ethics and independence sustainability provisions within the extant Code, extending the applicability of those provisions to sustainability assurance practitioners other than professional accountants (PAs).
- Option 2: A new Part 5 that would separately contain the provisions relevant to sustainability assurance engagements but housed within the Code.
- Option 3: A standalone handbook of ethics and independence standards for sustainability assurance engagements.

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consideration in the context of the upcoming roundtables.	At its June 2023 meeting, the IESBA reaffirmed its approach to developing ethics and independence standards for sustainability assurance engagements in Part 5 of the Code on the premise that these standards would be equivalent to the ethics and independence standards for audits of financial statements.
Regarding the reference to the new ethics and independence standards being framework-neutral, Ms. Blomme wondered how this would relate to the proposed International Standard for Sustainability Assurance (ISSA) 5000 being developed by the International Auditing and Assurance Standards Board (IAASB), given that ISSA 5000 will be closely linked to the Code. She added that if the EU adopts ISSA 5000, she would not expect the sustainability-related ethics and independence to operate except via ISSA 5000.	<p>At the meeting, Mr. Babington responded that the IESBA is working in close coordination with the IAASB regarding the development of ISSA 5000. He added that the framework-neutral approach recognizes that there are other reporting frameworks that can drive sustainability information besides the sustainability reporting standards being developed by the International Sustainability Standards Board (ISSB).</p> <p>Ms Dias pointed out that the IESBA's standards will complement, and not compete with, the ISSB's standards.</p> <p>Mr. Siong added that framework neutrality also relates to the operability of the new ethics and independence standards with other assurance frameworks, such as those of the International Organization for Standardization (ISO) and the Institute of Electrical and Electronics Engineers (IEEE).</p>
<p>Ms. Blomme acknowledged that all three options have pros and cons. While she was not yet able to express a preference, she noted that several factors would need to be considered, including the objectives, the structure of the standards, the audience, etc. She added that the longer term goal would be integrated reporting and integrated assurance on corporate reporting.</p> <p>Ms. Riggs concurred that the issue of integrated reporting is important. She added that in her suggested alternative option of an enhanced Part 4B, the longer term evolution would be that Part 4A would pick up sustainability information as it gets integrated into the financial statements.</p>	<p>At the meeting, Mr. Babington acknowledged the challenge of coalescing around one option but noted that the IESBA would use the upcoming roundtables to gather further input.</p> <p>In relation to integrated reporting, Ms Dias emphasized that the IESBA is fully aware that this is the ultimate goal for corporate reporting. She emphasized that all three presentation options would support integrated reporting.</p> <p>At its June 2023 meeting, the IESBA considered the feedback received from the CAG, NSS and roundtable participants and supported a separate Part 5 as the best option to achieve the project's objectives. The IESBA also agreed that Part 5 will be applicable to all sustainability assurance</p>

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	practitioners, irrespective of whether they are PAs or non-PAS or whether they are also the auditor of the same client.
Mr. Yurdakul expressed a preference for Option 1 but suggested a restructuring of the Code's building blocks, with Part 1 applying to all PAs and sustainability assurance practitioners, Part 2 to PAs in business, Part 3 to PAs in public practice, Part 4 to both PA and non-PA sustainability assurance providers, and having Part 5A for independence for audits and reviews, Part 5B for sustainability assurance engagements, and Part 5C for other assurance engagements. He was of the view that this approach would provide more flexibility.	In June 2023, the IESBA agreed to include, after due consideration of the options and comprehensive feedback from stakeholders, the ethics and independence standards for sustainability assurance engagements in a new Part 5 of the Code that will be applicable to PAs and non-PAs. The IESBA did not consider, on balance, that the other Parts of the extant Code should be restructured as suggested.
Ms. Meng indicated that for auditors, she supported integrating the sustainability-related standards into the existing Code. For non-PAs, she was of the view that it would be easier to have a standalone or separate section with more targeted and separate provisions. In addition, as the new provisions would be also for non-PAs, she felt it important that those provisions be easy to understand and use.	<p>In June 2023, the IESBA agreed to the new ethics and independence standards in Part 5 of the Code to be applicable to all sustainability assurance practitioners, irrespective of whether they are PAs or non-PAS or whether they are also the auditor of the same client.</p> <p>The Task Force, nevertheless, is developing the new Part 5 based on the extant Part 4A, which itself has been drafted in accordance with the Structure drafting conventions for ease of understanding and use.</p>
Referring to the September 2022 public statement issued by IOSCO regarding the development of global, profession-agnostic ethics and assurance standards for sustainability assurance, Mr. Ishiwata emphasized the importance of timely delivery of those standards. Regarding the presentation options, he indicated support for Options 2 or 3. Referring to the timeline, he also advised retaining flexibility to develop the standards step by step based on the needs of stakeholders.	<p>At the meeting, regarding the issue of timing, Mr. Babington noted that it is a matter of prioritization as to what needs to be delivered now vs what can be delivered later.</p> <p>For example, regarding the scope of the independence standards, the IESBA agreed that the standards in Part 5, which will be equivalent to the standards for audit engagements, will focus on sustainability information (a) reported under a general-purpose framework, and (b) publicly disclosed to support decisions making, or required to be provided in accordance with law or regulation. In the case of assurance of other sustainability information, the independence standards in the extant Part 4B will apply.</p>

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	This approach aligns with the current Code that sets out different independence standards for audit and review engagements (in Part 4A) and other assurance engagements in (Part 4B).
Mr. Thompson complimented Mr. Babington on a balanced presentation of the options and their pros and cons. Acknowledging the challenge of choosing an option, he advised the IESBA to be guided by the public interest. He also advised pragmatism as the IESBA should not take too long to settle on an option given the time constraints. Nevertheless, he expressed an initial preference for Option 2, subject to the roundtables.	Support and points noted. At the June 2023 meeting, the IESBA considered how the different options would meet the attributes of the Public Interest Framework.
Mr. Norberg felt that the key for non-PAs is to make the standards as digestible as possible. He agreed with Mr. Thompson regarding the need for pragmatism and, in particular, the need to focus on the usability of the standards by non-PAs.	<p>At the meeting, Mr. Babington agreed with the comments about pragmatism, noting that it should ultimately be what would best serve the public interest.</p> <p>In June 2023, the IESBA announced the establishment of a Sustainability Reference Group (SRG), including sustainability experts outside the accountancy profession who will provide input to the development of the draft standards, with special regard to usability by non-PA practitioners.</p>
Ms. Manabat commented that the expectations for non-PAs might be different from those for PAs. Given the time and resource constraints, she was of the view that it would have been ideal to develop the standards for PAs and non-PAs in parallel but that it might be more conservative to develop them sequentially.	<p>At the meeting, Mr. Babington responded that the challenge is how to make the new standards accessible to non-PAs, in addition to delivering on the regulatory challenge of equivalence to the standards for audit.</p> <p>Please also see responses above regarding the input from the SRG.</p>
Mr. Sobel expressed support for Option 2, noting that this option has many advantages and that he could live with the disadvantages. He acknowledged that there would be much to learn from the roundtables.	<p>At the meeting, Mr. Babington responded that he looked forward to the feedback the IESBA would gather from the roundtables on this matter.</p> <p>In June 2023, the IESBA agreed to include ethics and independence standards for sustainability assurance engagements in a new Part 5 of the Code that will be applicable to PAs and non-PAs</p>
Mr. Dalkin agreed with Mr. Norberg. He noted that in relation to assurance standards in the US governmental sector, two thirds of those standards	At the meeting, Mr. Babington responded that there is an attraction to that option. However, it would be necessary to address the challenge of how to avoid

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<p>can be used by PAs and one third by any assurance practitioner. In that context, he observed that one of the most significant challenges is that most of the assurance standards written for PAs are not really understandable by non-PAs such as engineers. Accordingly, he was of the view that Option 2 might be a way to approach the presentation issue where the standards could be drafted to be more accessible by non-PAs.</p>	<p>a different articulation of the provisions for non-PAs as this could lead to issues like regulatory arbitrage. Accordingly, careful drafting of the standards would be necessary.</p> <p>Please also see the response above regarding the input from the SRG.</p>
<p>Ms. Gamboa expressed support for Option 2. She noted her concurrence with the advantages presented, such as greater scalability for the future.</p>	<p>Support noted.</p>
<p>Mr. Lawal Danbatta expressed support for Option 2. However, he advised going to the roundtables with well-laid-out options and knowing who the roundtable participants are, so that the outcome from the roundtables on this matter is credible.</p>	<p>Mr. Babington concurred and acknowledged the IESBA staff's support in turning the ideas into the options clearly presented.</p>
<p>Mr. Hansen expressed support for an integrated approach, whether under Option 1 or Option 2, with a preference for Option 1. However, he acknowledged that the way forward would depend on the roundtable discussions.</p>	<p>Points considered.</p>
<p>INDEPENDENCE CONSIDERATIONS</p>	
<p>Mr. Lawal Danbatta expressed the view that in the context of greenwashing, there should be stricter requirements for non-PAs under the standards being developed by the IESBA compared with PAs. This is because there may be fewer safeguards against the non-PAs influencing the preparation of the sustainability information, given that sustainability reporting is much wider in scope than financial reporting. Further, non-PAs may not be affiliated with any professional body.</p>	<p>Point noted.</p> <p>As part of the Sustainability Project, the IESBA is developing revisions to the Code to address the ethics issues that might arise in sustainability reporting.</p> <p>Informed by the feedback from the global Roundtable participants, the IESBA agreed that the revisions should first focus on developing provisions for PAs preparing and presenting sustainability information.</p> <p>Please refer to the issues presented by WS2 at the June 2023 IESBA meeting.</p>
<p>Mr. Norberg agreed that consideration should be given to both interests and relationships of the sustainability assurance provider with the entity. He acknowledged that a key issue is understanding</p>	<p>Points considered.</p> <p>WS1 carried out research and asked for input from SRG members to better understand the types of</p>

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<p>the types of non-assurance services non-PAs are providing in relation to sustainability. He added that such data will be important to ensure the relevance of the standards.</p>	<p>non-assurance services non-PAs provide to clients in relation to sustainability.</p> <p>The SRG's input has been considered in developing the draft standards for the IESBA's consideration at the September 2023 meeting.</p>