

**IESBA Sustainability Project  
Summary of Significant Comments on Exposure Draft and Task Force Proposals**

**Note to IESBA Meeting Participants**

This agenda paper contains a summary of the significant comments received on the Exposure Draft, [Proposed International Ethics Standards for Sustainability Assurance \(Including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting](#), and the Task Force's responses to these comments.

While not all comments are mentioned in this paper, the Task Force reviewed all comments when developing its responses. The revised proposed text is set out in **Agenda Item 2-A**.

<b>I. INTRODUCTION</b> .....	3
<b>A. OBJECTIVE</b> .....	3
<b>B. EXPOSURE DRAFT</b> .....	3
<b>C. COORDINATION WITH IAASB</b> .....	3
<b>D. OVERVIEW OF RESPONDENTS</b> .....	4
<b>E. MATTERS FOR IESBA CONSIDERATION</b> .....	6
<b>II. SIGNIFICANT COMMENTS</b> .....	7
<b>A. Main Objectives of the IESSA</b> .....	7
<b>B. Definition of Sustainability Information</b> .....	13
<b>C. Scope of Proposed IESSA in Part 5</b> .....	16
<b>D. Structure of Part 5</b> .....	22
<b>E. Responding to Non-Compliance with Laws and Regulations™ (NOCLAR®)</b> .....	25
<b>F. Determination of PIEs</b> .....	36
<b>G. Group Sustainability Assurance Engagements</b> .....	40
<b>H. Using the Work of Another Practitioner</b> .....	46
<b>I. Independence Considerations Applicable to Assurance Work at a Value Chain Entity</b> .....	52
<b>J. Providing Non-Assurance Services to Sustainability Assurance Clients</b> .....	61
<b>K. Independence Matters When A Firm Performs Both the Audit and Sustainability Assurance Engagement</b> .....	67
<b>L. Other Matters</b> .....	71

- M. Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest .....75**
- N. Proposed Revisions to the Extant Code .....79**
- O. Effective Date.....87**
- III. NEXT STEPS .....92**
  - Appendix 1 .....93**
  - Appendix 2 .....98**

## I. INTRODUCTION

### A. OBJECTIVE

1. The purpose of this paper is to provide:
  - A full analysis of the significant comments received on the Exposure Draft (ED), [Proposed International Ethics Standards for Sustainability Assurance \(Including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting](#). Work Stream 1 (WS1) analyzed the comments relating to the independence provisions for sustainability assurance engagements and Work Stream 2 (WS2) analyzed the comments relating to the ethics provisions for sustainability assurance and sustainability reporting. Throughout their work analyzing the ED comments, WS1 and WS2 coordinated between each other on common issues.
  - The Sustainability Task Force's (TF) proposals to address the significant comments.

### B. EXPOSURE DRAFT

2. In January 2024, the IESBA released the ED. As stated in the Explanatory Memorandum (EM) to the ED, the ED proposed additions and revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) relating to sustainability assurance and reporting. These proposed changes included the proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) in a new Part 5 of the Code.
3. The IESBA undertook extensive fact-finding activities, including four global sustainability roundtables in March-April 2023 to inform its strategic direction on a range of key issues in developing the ED. In particular, the roundtables, held in Paris, Sydney, Singapore and New York, were attended by over 140 senior-level participants representing over 80 different organizations from a wide range of stakeholder groups, including stakeholders representing assurance practitioners who are not professional accountants (non-PAs).
4. The ED included 24 specific questions relating to key areas in the proposed standards for sustainability assurance and reporting for stakeholders' input. A total of 89 comment letters to the ED were received until the closure of the public consultation period on May 10, 2024.

### C. COORDINATION WITH IAASB

5. The International Auditing and Assurance Standards Board (IAASB) is also pursuing a sustainability project to develop a new overarching standard for assurance on sustainability reporting that is:
  - Suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks; and
  - Implementable by all assurance practitioners.

6. The IAASB’s ISSA 5000 ED<sup>1</sup> was published for public consultation between August 2023 and December 2023 and the IAASB received 146 comment letters. The IAASB aims to approve the final standard at its September 2024 meeting.
7. The close coordination between the IESBA and IAASB at the Staff, TF, and board level continued on a regular basis after the issuance of the proposed standards for public consultation, and it included consideration of the analysis of the feedback from stakeholders on coordination matters in both sets of standards. Respondents to the exposure drafts strongly encouraged the IESBA and IAASB to align their approaches regarding matters of mutual interest in order to ensure that the final standards are consistent and interoperable.

8. The matters for coordination between the IESBA and IAASB included:
  - Alignment of the common definitions in the IESSA and ISSA 5000.
  - The determination of the entities within the group for the assurance engagement, including the determination of group components and value chain components.
  - Independence considerations applicable to the group sustainability assurance team, including component practitioners in whose work the reporting firm or sustainability assurance practitioner (SAP) is sufficiently and appropriately involved.
  - Relevant ethical requirements, including independence requirements, applicable when the SAP uses the assurance work or non-assurance work of another practitioner in whose work the SAP is unable to be sufficiently and appropriately involved.
  - Public disclosure of the amount of fees received from the client and the operationalization of the transparency requirement in the IESSA regarding the SAP’s application of the public interest entity (PIE) independence requirements when performing the sustainability assurance engagement.
  - Communication between the auditor of the financial statements and the SAP, especially in relation to actual or suspected non-compliance with laws and regulations.
  - Alignment of the proposed effective dates of the IESSA and ISSA 5000.

9. The details of the coordination process and the proposed alignment in approaches concerning the key issues are presented under the relevant question/topic in Part II below.

**D. OVERVIEW OF RESPONDENTS**

10. The 89 responses to the ED can be broken down as follows (see Appendix 1 for the list of respondents):

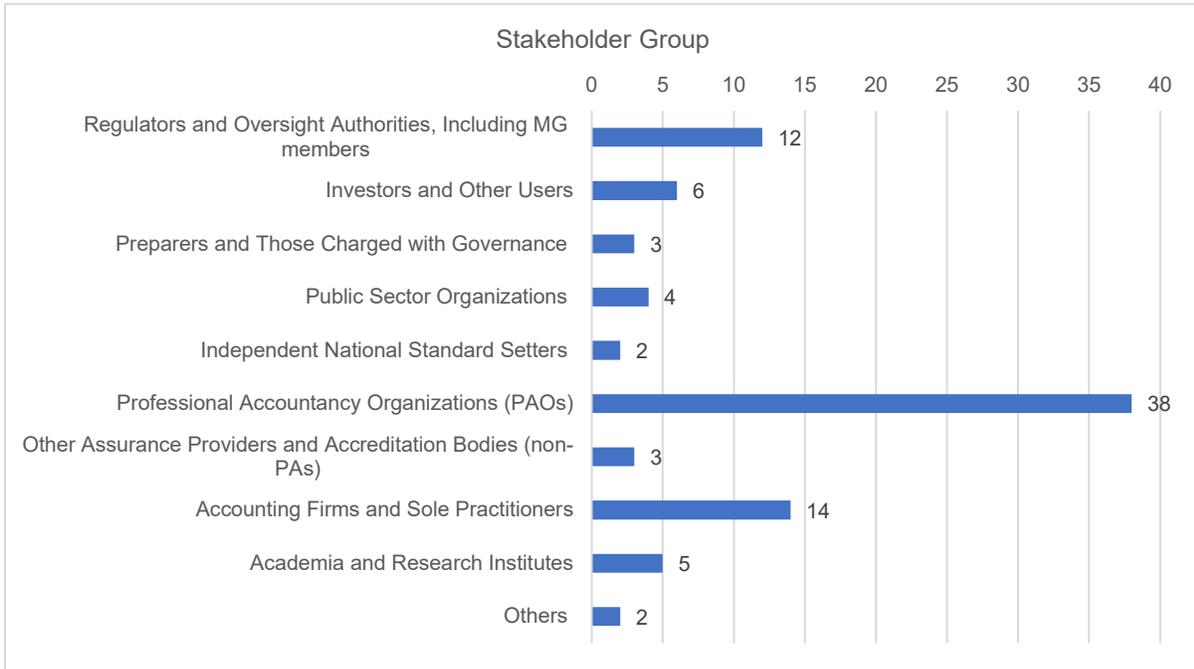
Stakeholder Group	#
Regulators and Oversight Authorities, Including Monitoring Group (MG) members	12
Investors and Other Users	6

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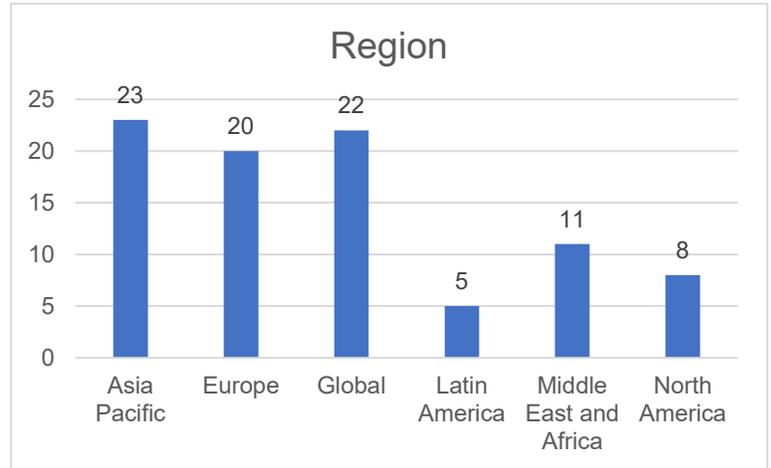
<sup>1</sup> Exposure Draft, *Proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements*

Sustainability– Summary of Significant Comments on Exposure Draft and Task Force Proposals  
 IESBA Meeting (September 2024)

Stakeholder Group	#
Preparers and Those Charged with Governance	3
Public Sector Organizations	4
Independent National Standard Setters	2
Professional Accountancy Organizations (PAOs)	38
Other Assurance Providers and Accreditation Bodies (non-PAs)	3
Accounting Firms and Sole Practitioners	14
Academia and Research Institutes	5
Others	2
<b>TOTAL</b>	<b>89</b>



Region	#
Asia Pacific	23
Europe	20
Global	22
Latin America	5
Middle East and Africa	11
North America	8
<b>TOTAL</b>	<b>89</b>



11. A breakdown of the respondents<sup>2</sup> includes:

- Two MG members (IFIAR, IOSCO).
- Two Independent National Standard Setters (NSS) (APESB, NZAuASB).<sup>3</sup>
- Three organizations representing SAPs who are not PAs, such as AccountAbility, the International Accreditation Forum (IAF) and the Japan Accreditation Board.
- A large proportion of respondents were PAOs, including member bodies of the International Federation of Accountants (IFAC). Some of the PAOs are also NSS in their jurisdictions.<sup>4</sup>
  - One respondent represents small to medium practices in the EU (EFAA).
- Among 14 firms that provided comments, 12 are members of the [Forum of Firms](#) (FoF).

12. IESBA representatives also conducted extensive outreach with diverse stakeholder groups, including practitioners who are not PAs, during the ED period through various seminars, forums, meetings and other events. See Appendix 2 for a summary of the main takeaways from some of this outreach. The TF has also continued its liaison with the Sustainability Reference Group (SRG).

## E. MATTERS FOR IESBA CONSIDERATION

13. The significant comments and the TF's responses are grouped by key issues and ED questions under Part II below. Refer to **Agenda Items 2-C.1 to 2-C.26** for the respondents' comments.

14. Following detailed consideration of the respondents' comments and suggestions, the TF is proposing revisions to the ED (see **Agenda Item 2-A**) to, among others:
- Align the definitions applicable in both the IESSA and ISSA 5000, such as the definitions of sustainability information and sustainability matters, component, component practitioner, group, group sustainability assurance engagement, group sustainability assurance information, reporting boundary, and another practitioner.

<sup>2</sup> For the abbreviations used in this paper for specific respondents, please refer to the list of respondents in Appendix 1.

<sup>3</sup> Independent National Standard Setters do not form part of PAOs.

<sup>4</sup> Refer to Appendix 1 which details those PAOs that have NSS responsibilities.

- Adopt an approach similar to the one in the extant Code for the communication of NOCLAR between the SAP and the auditor.
- Provide a coordinated approach with the IAASB regarding the determination of groups for the purposes of group sustainability assurance engagements, including the determination of group components and value chain components.
- Restructure and simplify the independence provisions in Section 5407 of the ED applicable to assurance work performed at, or with respect to, a value chain entity, merging those provisions into Sections 5405 and 5406.
- Delete Section 5700 of the ED, which required the sustainability assurance team to apply the “knows or has reason to believe” principle when the firm intends to use the work of a sustainability assurance practitioner performed at a value chain entity.
- Set out relevant ethical requirements applicable when the firm intends to use the non-assurance work performed by another practitioner for the purposes of the sustainability assurance engagement.
- Provide further guidance, including examples in relation to the specific non-assurance services (NAS) in the subsections, to clarify the relevance and the impact of such services on sustainability information.
- Clarify that the fee for a sustainability assurance engagement mandated by law or regulation does not impact the level of threats to independence created by the proportion of fees for services other than audit to the audit fee.
- Clarify the consideration of threats created by long association with a PIE client, if the firm performed sustainability assurance engagements for the client previously that were not within the scope of the International Independence Standards (IIS) in Part 5.
- More clearly set out the option for national laws or regulations to treat an entity as a PIE solely for the purpose of the sustainability assurance engagement based on conditions related to sustainability matters.
- Provide clear and operable transitional provisions.

## II. SIGNIFICANT COMMENTS

### A. Main Objectives of the IESSA

#### **Question 1**

***Do you agree that the proposals in Chapter 1 of the ED are:***

- (a) Equivalent to the ethics and independence standards for audit engagements in the extant Code?***
- (b) Profession-agnostic and framework-neutral?***

15. Recognizing the public interest in sustainability information that meets certain criteria, the IESBA holds to the premise that sustainability assurance engagements on such information must be underpinned by the same high standards of ethical behavior and independence that apply to audits

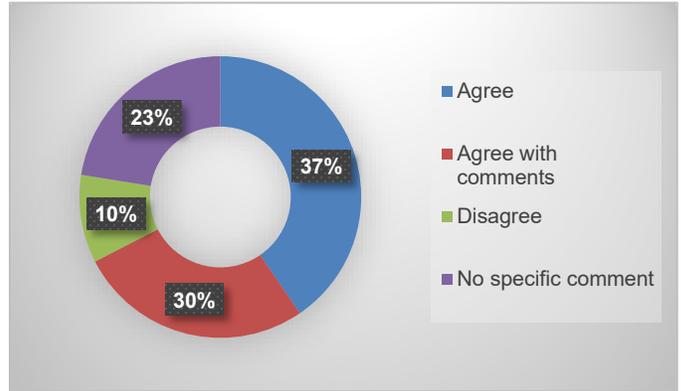
of financial statements. With that in mind, the proposed IESSA in the new proposed Part 5 is equivalent to Parts 1 to 4A of the Code, with certain exceptions.

16. Following a [statement of support](#) from IOSCO, the IESBA developed Part 5 as a set of profession-agnostic global ethics (including independence) standards that are meant to be understood and applied by all practitioners of sustainability assurance engagements, including non-PAs.
17. Part 5 was also developed in a framework-neutral way so that the ethics (including independence) standards can underpin any reporting or assurance framework used to prepare or assure the sustainability information.

### Overview of Responses

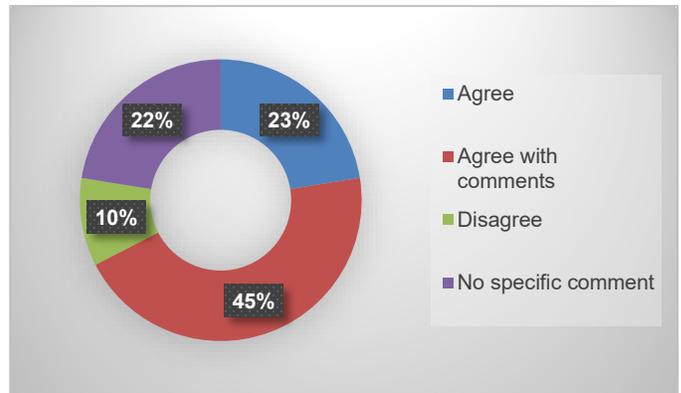
18. Responses to Question 1(a) were as follows (see separate NVivo report in **Agenda Item 2-C.1** for details):

- 33 respondents agreed – 37%;
- 27 respondents agreed with comments – 30%;
- 9 respondents did not agree – 10%; and
- 20 respondents did not have a specific response – 23%.



19. Responses to Question 1(b) were as follows (see separate NVivo report in **Agenda Item 2-C.1** for details):

- 20 respondents agreed – 23%;
- 40 respondents agreed with comments – 45%;
- 9 respondents did not agree – 10%; and
- 20 respondents did not have a specific response – 22%.



### Respondents' Comments

20. A substantial body of respondents agreed that Part 5 achieved those three characteristics, i.e., equivalence to the ethics and independence standards for audits, profession-agnostic and framework-neutral.

### *Level Playing Field Between PAs and non-PAs*

21. Respondents provided the following comments on this matter:

- Several respondents<sup>5</sup> were concerned that SAPs who are not PAs were merely encouraged to apply Parts 1-3 and Part 4B of the Code for sustainability assurance engagements outside the scope of the IIS in Part 5. They pointed out that Part 5 does not include an equivalent Part 4B.
- Several respondents<sup>6</sup> noted that the enforcement and oversight systems for non-PAs with respect to the IESSA are not equivalent to the highly regulated oversight framework for PAs.
- Several respondents<sup>7</sup> considered that non-PAs may not be as prepared as PAs to apply Part 5. They therefore suggested that the IESBA collaborate with non-PA professional bodies, exemplifying the importance of the strategic partnership that the IESBA has established with the IAF, and develop guidance material for non-PAs as well as outreach to them. Suggestions to facilitate the adoption and implementation of Part 5 included education programs focusing on professional skepticism; mapping the differences between Parts 1 to 4B and Part 5 to assist non-PAs; and drawing on support from a reference group composed of non-PAs when developing the roll-out guidance material.
- A number of respondents<sup>8</sup> mentioned the cost of compliance with the IESSA for non-PAs, noting that they are unfamiliar with the systems and processes (including ISQM 1<sup>9</sup>) needed to comply with the proposed standards.

### *Language Used in Part 5*

22. Many respondents<sup>10</sup> considered that many concepts used in Part 5 are unique to assurance/accountancy and will be difficult for non-PAs to understand. Examples mentioned by the respondents include: “general-purpose framework”, “attestation” vs “direct engagements”, “underlying subject matter”, “applicable criteria”, “fundamental principles”, “conceptual framework”, “professional skepticism”, and “network” and “network firm” when SAPs are structured as corporations. Respondents pointed out the need for additional guidance and education/training for non-PAs.
23. Some respondents<sup>11</sup> suggested that the IESBA should ensure consistent terminology with other reporting and/or assurance standards.

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<sup>5</sup> GAO, AE, CAI, CNCC-CNOEC, GAA, IDW, IFAC, IWP, MIA (Malta), NBA, RSM

<sup>6</sup> NASBA, SAAJ, AICPA, CAI, GAA, HKICPA, ICAEW, IFAC, MIA (Malaysia), NYSSCPA, GTIL

<sup>7</sup> CBPS-CFC-IBRACON, CPAA, ICAEW, SAICA, BDO, KMPG, Moore, PP

<sup>8</sup> IRBA, NZAuASB, CAI, CBPS-CFC-IBRACON, ICAEW, ICAS, IFAC, PAFA, IAF, BDO, DTTL, GTIL, KPMG, AFAANZ

<sup>9</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>10</sup> IRBA, ICFOA, APESB, NZAuASB, ACCA, CAANZ, CAI, CPAC, EFAA, ICAEW, ICPAU, IDW, IFAC, MIA (Malaysia), NYSSCPA, SAICA, WPK, AA, IAF, BDO, DTTL, EY, GTIL, KMPG, Mazars, Moore, PP, PwC, RSM, NRS

<sup>11</sup> ICAEW, AA, DTTL, PwC, IBA

### *Suggestions for Improvement of Part 5*

24. Comments in this area included:
- A simpler, staggered initial approach by the IESBA might be more effective.<sup>12</sup>
  - Part 5 is not sufficiently tailored for the specificities of sustainability assurance engagements.<sup>13</sup> In this respect, a few respondents<sup>14</sup> preferred that the IESBA had adapted Part 4B instead of Part 4A.
  - Part 5 is focused on reasonable assurance and should reflect other types of assurance.<sup>15</sup>
  - It would be useful to articulate the IESSA with other professional ethical frameworks and provide general advice on how to manage conflicting requirements.<sup>16</sup>
25. Some respondents<sup>17</sup> suggested that the IESBA coordinate with the IAASB to ensure that the Boards' standards are interoperable. A point of concern was that the proposed ISSA 5000 did not include provisions regarding group engagements.

### **TF Views and Proposals**

26. Having regard to the cross-cutting aspects of these comments, the TF:
- Acknowledges the challenges a wide group of practitioners unfamiliar with the Code will face in implementing a new ethical framework for the first time. The TF therefore stresses the importance of the IESBA's commitment to assist with guidance and capacity building after the approval of the standards. The TF also notes that concerns about the application of the IESSA by non-PAs mostly come from the accountancy profession.
  - Notes that the IESBA and the IAASB have been closely coordinating their work, as mentioned in Section C above.
27. Regarding the comments relating to the level playing field between PAs and non-PAs, the TF notes that:
- The IESBA has committed in its Strategy and Work Plan (SWP) 2024-2027<sup>18</sup> to developing profession-agnostic independence standards for sustainability assurance engagements not within the scope of the current Sustainability project. See Question 4.
  - Whilst the IESBA will continue to work with stakeholders on the adoption and implementation of the IESSA, monitoring and enforcement of the IESSA is a matter for jurisdictions.

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<sup>12</sup> ACRA, ICAS, MIA (Malaysia)

<sup>13</sup> AICPA, CNCC-CNOEC, IWP, MIA (Malaysia), PICPA, WPK, Assirevi, DTTL, GTIL, KPMG, PwC

<sup>14</sup> CPAA, PwC, DTTL

<sup>15</sup> EFAA, PAFA

<sup>16</sup> IFAC, SOCPA, IAF, IBA

<sup>17</sup> IFAC, IWP, MIA (Malaysia), PAFA, Assirevi, DTTL

<sup>18</sup> [Towards a More Sustainable Future: Advancing the Centrality of Ethics | Ethics Board](#)

28. Regarding the comments on the language used in Part 5, the TF notes that:
- It has been working closely with the SRG to ensure that the language in the IESSA is capable of being comprehended by all users, regardless of their professional background. In addition, efforts were made to use neutral (non-accounting) language where possible (e.g., replacing “partner” with “leader”).
  - The IESSA has consistent terminology with other standards to the extent possible. The TF further notes that the framework neutrality aspect means that the IESSA needs to be capable of interacting with many standards and therefore the language used in Part 5 cannot be overly specific to any one of those standards.
29. Regarding the suggestions for improvement of Part 5, the TF notes that:
- The approach followed by the IESBA when developing Part 5 is based on the IESBA’s agreement that ethics (including independence) requirements underpinning sustainability assurance engagements should be equivalent to those applying to the audits of financial statements (Part 4A of the Code). This approach is necessary because of the public interest in sustainability information that meets certain criteria.
  - The IESSA covers both reasonable and limited assurance for equivalence with Part 4A (which covers audits, i.e., reasonable assurance, as well as review engagements, i.e., limited assurance) and to future-proof the standards, thus preventing constant revisions as the market evolves.
  - The IESSA should apply concurrently with other professional ethical frameworks. See Question 4.

**Question 2**

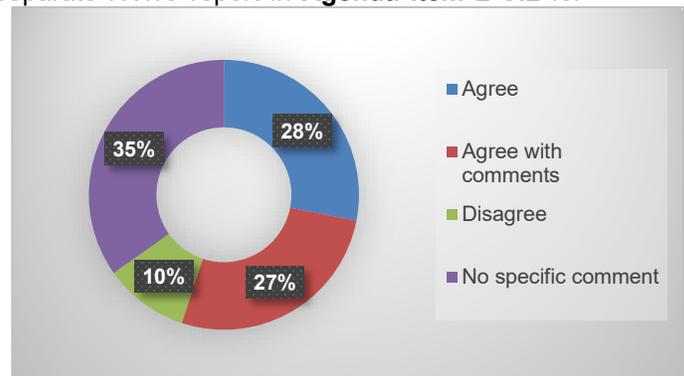
***Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics?***

30. The IESBA is of the view that the proposed IESSA is responsive to the public interest, considering the [Public Interest Framework’s](#) (PIF) qualitative characteristics of a standard, in particular: coherence with the overall body of the IESBA’s standards, clarity and conciseness of the standards, and implementability and enforceability.

**Overview of responses**

31. Responses to Question 2 were as follows (see separate NVivo report in **Agenda Item 2-C.2** for details):

- 25 respondents agreed – 28%;
- 24 respondents agreed with comments – 27%;
- 9 respondents did not agree – 10%; and
- 31 respondents did not have a specific response – 35%.



## Respondents' Comments

32. A substantial body of respondents agreed that the IESSA was responsive to the public interest, considering the PIF's qualitative characteristics.
33. A few respondents<sup>19</sup> noted that the "scalability" characteristic is not addressed in the Explanatory Memorandum (EM) accompanying the ED. They suggested that "scalability" is considered when finalizing the standards.

### *Coherence of IESSA with the Overall Body of the IESBA's Standards*

34. One respondent<sup>20</sup> suggested that, wherever possible, the IESBA should adopt the definitions used by other bodies (e.g. the International Sustainability Standards Board (ISSB)).

### *Clarity and Conciseness of the Standards*

35. Some respondents<sup>21</sup> considered that Part 5 was long, complex, and/or difficult to navigate. A few respondents<sup>22</sup> expressed doubts regarding the extent to which Part 5 was capable of being understood and applied by non-PAs.

### *Implementability and Enforceability of the Standards*

36. One respondent<sup>23</sup> considered it would be difficult for PAs to know whether complying with a requirement in Parts 1 to 4A of the Code would achieve compliance with the corresponding requirement in Part 5 (and vice versa) and what the consequences would be. This respondent also suggested an alternative structure for the IESSA, i.e., integrate the necessary sustainability-related adjustments to the ethics standards in extant Parts 1 and 3 of the Code and develop separate independence standards in Part 5 for sustainability assurance engagements.
37. A few respondents<sup>24</sup> expressed concerns about expanding the scope of the Code to cover non-PAs, also raising concerns over the authority of the IESBA to develop standards for non-PAs. Some respondents<sup>25</sup> considered it will be more difficult for non-PAs to implement the IESSA compared to PAs.
38. Several respondents<sup>26</sup> also noted again the risk of creating an unlevel playing field between PAs and non-PAs, noting that certain jurisdictions may not have designated a responsible oversight authority for SAPs who are not PAs.
39. Several respondents<sup>27</sup> expressed the need for sufficient implementation time and guidance.

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<sup>19</sup> CFAR, EFAA, MIA (Malta)

<sup>20</sup> ICAEW

<sup>21</sup> IRBA, NZAuASB, CNCC-CNOEC, CPAA, PP

<sup>22</sup> IWP, RSM

<sup>23</sup> IRBA

<sup>24</sup> AICPA, ICAS, RSM

<sup>25</sup> NZAuASB, ACCA, ICPAU, RSM

<sup>26</sup> GAO, AICPA, CAANZ, CAI, GAA, ICAEW, ICPAU, WPK, RSM

<sup>27</sup> IRBA, NZAuASB, ACCA, AE, CAI, CPAC, ICAEW, NBA

### TF Views and Proposals

40. As mentioned above, the TF acknowledges the challenges that a wide group of practitioners unfamiliar with the Code will face in implementing a new ethical framework for the first time. The TF therefore stresses the importance of the IESBA’s commitment to assist with guidance and capacity building after the approval of the standards. The TF also reiterates that the responsibility for monitoring and enforcing compliance with the standards lies with the jurisdictions, not the IESBA.
41. Certain qualitative characteristics in the PIF, including “scalability”, were not explicitly addressed in the EM. However, the TF believes the proposals in the IESSA are scalable as they adopt a proportional approach equivalent to that in the extant Code, such as the differential treatment for PIEs with respect to independence.
42. Regarding the comments on the coherence of the IESSA with the overall body of the IESBA’s standards, the TF notes that Part 5 aims to be framework-neutral and therefore interoperable with any assurance or reporting standards. As mentioned above, a consequence of this characteristic of framework neutrality is that the language used cannot be overly specific to any standard.
43. Regarding the comments on the implementability and enforceability of the standards, the TF notes that:
  - Part 5, mirroring extant Parts 1 to 4A in form and substance, is intended to make it easier (for regulators and PAs) to identify any deviation in Part 5 from extant Parts 1 to 4A.
  - Many jurisdictions allow, or plan to allow, those who are not PAs to perform sustainability assurance engagements. Hence, it is in the public interest that the ethics (including independence) standards for those services can equally be applied by them.
  - The proposed effective date provides sufficient time for adoption and implementation. For more discussion on this topic and the proposed effective date, which was coordinated with the IAASB, see Question 24.

### B. Definition of Sustainability Information

**Question 3**

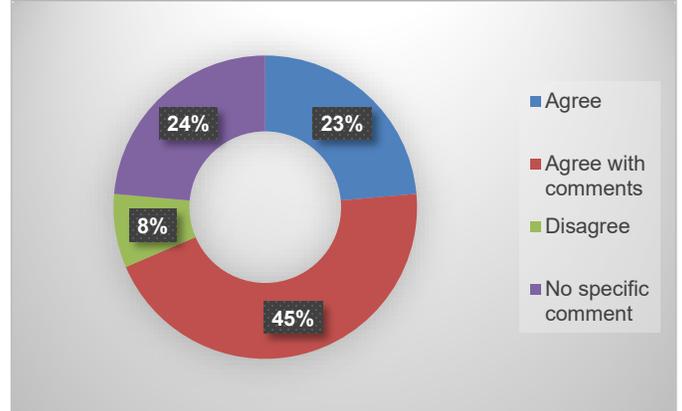
***Do you support the definition of “sustainability information” in Chapter 2 of the ED?***

44. The Sustainability ED included a proposed definition for a new term, “sustainability information,” applicable to both sustainability assurance and sustainability reporting, in the Glossary to the Code. The proposed definition determined what type of information is relevant for the purposes of applying the IESSA and the standards in Parts 1 to 3 of the extant Code regarding sustainability reporting.
45. The ISSA 5000 ED defined “sustainability information” and “sustainability matters.”

## Overview of Responses

46. Responses to Question 3 were as follows (see separate NVivo report in **Agenda Item 2-C.3** for details):

- 21 respondents agreed – 23%;
- 40 respondents agreed with comments – 45%;
- 7 respondents did not agree – 8%; and
- 21 respondents did not have a specific response – 24%.



## Respondents' Comments

47. A substantial body of respondents supported IESBA's proposed definition.

### *Coordination with Other Standard Setters, Notably IAASB*

48. Many respondents,<sup>28</sup> including a MG member, advocated for the IESBA to coordinate or align terms and definitions with other standard setters, notably the IAASB. A few respondents<sup>29</sup> suggested that the IESBA and the IAASB used different terms to avoid confusion if their respective definitions of "sustainability information" needed to be different. Some respondents<sup>30</sup> suggested that the IESBA adhered to the IAASB definitions.

### *Drafting Suggestions*

49. Respondents' comments on the proposed list of factors in the definition included suggestions to:

- Remove the reference to "economic" factors as it may be interpreted as referring to purely economic or financial information that should not be captured<sup>31</sup> or to better align with the IAASB's definitions.<sup>32</sup> On the other hand, there were also suggestions to retain that reference.<sup>33</sup>
- Replace "governance" with "business conduct."<sup>34</sup>
- Add "political instability."<sup>35</sup>

<sup>28</sup> ESMA, IOSCO, IRBA, PAABZ, DIR, ICFOA, NZAuASB, ACCA, AICPA, CAANZ, CNCC-CNOEC, CPAA, EFAA, ICAEW, ICAS, IDW, IFAC, IPA, KICPA, MIA (Malaysia), NYSSCPA, SAICA, WPK, JAB, GTIL, KPMG, Mazars, RSM

<sup>29</sup> GAO, NZAuASB

<sup>30</sup> DIR, DTTL, PwC, IBA

<sup>31</sup> SGX

<sup>32</sup> RSM

<sup>33</sup> NZAuASB, AA, DIRC

<sup>34</sup> EFAA

<sup>35</sup> NSU

50. Respondents' comments on the descriptive part (i.e., in italics) of the proposed definition included suggestions to:
- Add a new bullet detailing the entity's governance structure or processes.<sup>36</sup>
  - Include examples of the types of information included<sup>37</sup> or excluded<sup>38</sup> from the scope of the definition.
51. Some respondents<sup>39</sup> suggested that the IESBA detailed the references to single and/or double materiality in the proposed definition.

### **TF Views and Proposals**

52. At the IESBA June 2024 meeting, the IESBA supported further coordination with the IAASB to achieve a common core definition of "sustainability information" and "sustainability matters" that is simple, non-technical, and profession-agnostic with a view to enhancing the interoperability of the two Boards' standards. Each Board could then add separate application material to cater to its specific needs considering, for instance, the different scopes of each Board's project (i.e., IESBA standards cover both sustainability reporting and assurance while the IAASB's standard covers sustainability assurance only).
53. As a result of coordination, the IESBA TF and the IAASB TF agreed to propose the following common core definitions:
- Sustainability information – Information about sustainability matters.
  - Sustainability matters – Environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information.
54. The common core definition of "sustainability matters":
- Points to the principal role of legal or voluntary reporting frameworks in defining or describing the sustainability matters/topics that should be reported since it is not for the assurance or ethics frameworks to determine such matters/topics.
  - Mentions the widely recognized environmental, social and governance (ESG) topics while also allowing for the existence of "other" sustainability-related topics. The reference to "other" topics recognizes the evolution of the sustainability area and ensures that the IESBA/IAASB definition stays evergreen.

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<sup>36</sup> SOCPA, DIRC

<sup>37</sup> MIA (Malta), SAICA

<sup>38</sup> HKICPA, SAICA, NSU

<sup>39</sup> SGX, IAIP, JICPA, NSU

55. As for the IESBA add-ons, the TF proposes adding the following description to the definition of “sustainability information”:

*Sustainability information includes information that may be:*

- *Expressed in financial or non-financial terms.*
- *Historical or forward-looking.*
- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain.*
- *Related to the quantitative or qualitative evaluation of an entity’s past or expected performance over the short, medium or long term.*
- *Described in an entity’s governance structure, policies, plans, goals, commitments or representations.*
- *About the effects (including risks and opportunities) of environmental, social, governance or other sustainability-related matters on an entity’s business model, activities, services or products.*
- *About the effects of an entity’s business model, activities, services or products on the environment, society or economy.*

56. The development of the common core definitions and the IESBA add-ons took into consideration the respondents’ comments.

57. As a compromise solution aimed at enhancing coordination and interoperability between the IESBA and the IAASB standards, the IESBA agreed at its June 2024 meeting to adopt the double-term construct used by the IAASB in the proposed ISSA 5000, i.e., “sustainability information” and “sustainability matters.” However, given that only the term “sustainability information” is used in the IESBA’s proposed standards and that the sole purpose of “sustainability matters” is to define “sustainability information,” the TF proposes to define both terms under the definition for “sustainability information” and add the description in italics at the end of that entry (See Glossary in **Agenda Item 2-A**).

**Matter for IESBA Consideration**

1. IESBA members are asked to share views on the TF’s proposals regarding the definitions of “sustainability information” and “sustainability matters.”

**C. Scope of Proposed IESSA in Part 5**

**Question 4**

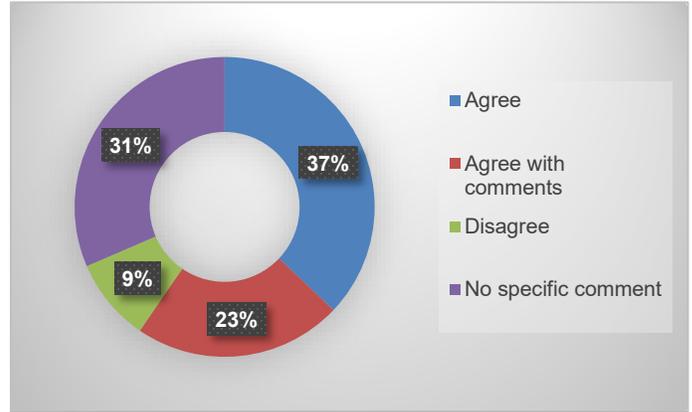
***The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5?***

58. The ED proposal was that the ethics standards in Part 5 applied to all sustainability assurance engagements (regardless of whether the engagement is within the scope of the IIS in Part 5) as well as any other services that the practitioner provided to the same sustainability assurance client.

### Overview of Responses

59. Responses to Question 4 were as follows (see separate NVivo report in **Agenda Item 2-C.4** for details):

- 33 respondents agreed – 37%;
- 20 respondents agreed with comments – 23%;
- 8 respondents did not agree – 9%; and
- 28 respondents did not have a specific response – 31%.



### Respondents' Comments

60. A substantial body of respondents agreed with the proposed approach.

#### *Different Scope than the One Proposed in the ED*

61. A few respondents<sup>40</sup> supported the narrowest option that the IESBA considered for the scope of the ethics standards in Part 5, while some respondents<sup>41</sup> preferred the broadest option which they viewed as adequate to ensure a level playing field (see paragraph 31 of the EM for an overview of both options). Another respondent<sup>42</sup> suggested extending the ethics standards in Part 5 to address interests in, or relationships with, value chain entities.

#### *Encouragement for Non-PAs to Apply Parts 1 to 4B of the Code*

62. With regards to the encouragement in proposed paragraph 5100.2b(b) that SAPs who are not PAs apply Parts 1 to 4B of the Code, some respondents<sup>43</sup> were concerned that the encouragement was not enough and that Part 4B of the Code should also be mandatory for SAPs who are not PAs to ensure a level playing field among all those providing sustainability assurance services.
63. A few respondents<sup>44</sup> pointed out the existence of other codes of practice regulating the behavior of SAPs who are not PAs, such as lawyers, and the need to ensure that the IESSA does not contradict those codes.

<sup>40</sup> NSU, IBA

<sup>41</sup> ICAEW, MIA (Malaysia), BDO, KPMG

<sup>42</sup> AGNZ

<sup>43</sup> AICPA, CAI, CPAC, ICAS

<sup>44</sup> ICFOA, IAF, IBA

### *Practical Difficulties with the Proposed Scope*

64. Some respondents<sup>45</sup> considered that proposed paragraph 5100.2 about the scope of Part 5 was unclear. They felt that this paragraph was worded in a way that implied the application of the ethics element of Part 5 (i.e., Sections 5100-5390) was not always associated with the independence element of Part 5 (i.e., Sections 5400-5700). They also indicated that it was unclear whether a PA performing an engagement that does not meet the criteria set out in proposed paragraph 5400.3a should apply the ethics standards in Parts 1 and 3 in addition to applying the ethics standards in Part 5 and the IIS in Part 4B.

### **TF Views and Proposals**

65. The TF proposes to retain the scope proposed in the ED for the ethics provisions, i.e., they apply to all sustainability assurance engagements and any other services that the SAP provides to the same sustainability assurance client. As set out in the EM, the narrowest option would be insufficient from a public interest perspective and the broadest option would be outside the IESBA's current remit. In addition, the TF is of the view that scoping in value chain entities as part of this project would be too onerous for SAPs and that a phased approach should be taken instead.
66. With regards to the suggestion that the proposed Part 5 should require SAPs who are not PAs to apply Part 4B to those sustainability assurance engagements that are not covered by the IIS in Part 5, the TF is of the view that it is premature to impose such a requirement on non-PAs. In this regard, the TF notes that the IESBA already has plans under its SWP 2024-2027 to commence a new work stream to consider revisions of Part 4B. This new work aims to ensure that all independence standards for sustainability assurance engagements are addressed in the Code in a profession-agnostic manner. Until then, the application of Part 4B should remain optional for non-PAs unless regulators decide to require it for both PAs and non-PAs.
67. The TF acknowledges the existence of other codes of conduct that might apply to SAPs who are not PAs by virtue of their profession or professional affiliation (e.g., lawyers and engineers). This already happens when, for instance, a firm employs a lawyer who is required to apply both the Code and the applicable legal professional code of conduct. Similarly, this would be the case for non-PAs who are subject to specific codes of conduct as well as Part 5 of the Code. The TF proposes to add a new paragraph 5100.2c in **Agenda Item 2-A** to clarify this point.<sup>46</sup> However, it is worth noting that in case the Code and the other code(s) that non-PAs are subject to set out different provisions on the same topic (for instance, NOCLAR), it is not for the Code to determine which one(s) should prevail or specify how that determination should be reached, as that is for the practitioner to assess under a case-by-case analysis.
68. The TF also proposes to revise paragraphs 5100.2(a) and R5100.6 in **Agenda Item 2-A** to clarify the scope of Part 5 in the following manner:
- Proposed revisions to paragraph 5100.2(a) clarify that whilst the ethics provisions in Part 5 (i.e., Sections 5100-5390) are applicable to all sustainability assurance engagements, the independence provisions in Part 5 (i.e., Sections 5400-5700) are only applicable to those

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<sup>45</sup> ACCA, IFAC, JICPA, IBA

<sup>46</sup> It is worth noting that the reference to "at least as demanding" in paragraph 5100.2b(b) in **Agenda Item 2-A** is also relevant for this discussion because that expression recognizes the existence of other professional codes of ethics.

sustainability assurance engagements that meet certain criteria. This is a consequence of the more limited scope of the IIS in Part 5 compared to the ethics provisions.

As mentioned in the EM, the IESBA agreed to set out a high bar of independence standards for certain sustainability assurance engagements only, i.e., those that meet the criteria in proposed paragraph 5400.3a, which the IESBA believes have the same level of public interest as audits of financial statements. Following the completion of a future IESBA project whereby the scope of Part 4B is extended to apply to the remaining sustainability assurance engagements, and assuming that extension is incorporated into Part 5, then the scope of the ethics and independence standards in Part 5 will cover all sustainability assurance engagements.

- Proposed revisions to paragraph R5100.6 clarify that the requirement for SAPs to comply with Part 5 is only applicable if and when, and to the extent that, the service provided is covered by the scope of Part 5.

69. To help explain the scope in Part 5, the TF proposes that the diagrams included in Appendix 1 of the EM be added to the non-authoritative guidance material to be issued by the IESBA.

#### **Matter for IESBA Consideration**

2. IESBA members are asked to share views on the TF's proposals regarding the scope of the ethics standards in Part 5, including:
  - Retaining the scope proposed in the ED, i.e., that the ethics provisions in the IESSA apply to all sustainability assurance engagements and any other services that the practitioner provides to the same sustainability assurance client.
  - The new paragraph 5100.2c.
  - The revisions to paragraphs 5100.2(a) and R5100.6.

#### **Question 5**

**The IESBA is proposing that the International Independence Standards in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a?**

70. Since sustainability assurance engagements can be very diverse in nature, scope and purposes, the IESBA proposed in the ED that, as a first step, the independence standards in Part 5 focus on sustainability assurance engagements with the same level of public interest as audits of financial statements. Accordingly, the ED set out that the International Independence Standards (IIS) in Part 5 apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:
  - (a) Is reported in accordance with a general purpose framework (as defined in the proposed revised Glossary); and

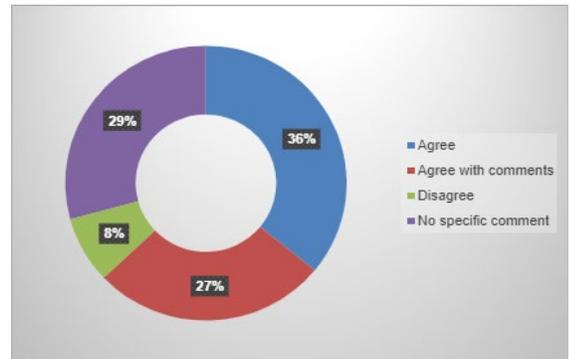
(b) Is required to be provided in accordance with law or regulation, or is publicly disclosed to support decision-making by investors or other stakeholders.

71. For other sustainability assurance engagements that are not covered by the IIS in Part 5, the IIS in Part 4B already set out the applicable independence requirements. Although Part 4B is currently applicable to PAs only, as mentioned above, other SAPs are encouraged to comply with its provisions when performing other sustainability assurance engagements outside of the scope of the IIS in the proposed IESSA. As also noted above, as part of its SWP 2024-2027, the IESBA agreed to consider how the Code might be enhanced, whether through revision of the extant Part 4B or the development of a Part 4B equivalent in the new Part 5, to ensure that all independence standards for sustainability assurance engagements are addressed in the Code in a profession-agnostic manner.

### Overview of Responses

72. Responses to Question 5 were as follows (see separate NVivo report in **Agenda Item 2-C.5** for details):

- 32 respondents agreed – 36%;
- 24 respondents agreed with comments – 27%;
- 7 respondents did not agree – 8 %; and
- 26 respondents did not have a specific response – 29%.



### Respondents' Comments

#### *Extending the Scope of IIS in Part 5*

73. A large body of respondents supported that the IIS in Part 5 focus on sustainability assurance engagements with the same level of public interest as audits of financial statements. There were a few suggestions<sup>47</sup> to consider extending the scope to all types of sustainability assurance engagements. Those few respondents argued that any sustainability information that is subject to assurance would invariably have some exposure to stakeholders, and excluding engagements solely based on the framework used (e.g., specific user vs general purpose) or disclosure limitations (restricted reports) might be overly restrictive. There were a few respondents<sup>48</sup> supporting the ED proposal as a first step, but they encouraged the IESBA to include in its work plan a project to extend the scope of Part 5 to all sustainability assurance engagements in the near future.

74. Some respondents<sup>49</sup> noted that the IIS in Part 4B are currently only applicable to PAs. They were of the view that without an explicit requirement for SAPs who are non-PAs to also comply with provisions of Part 4B, there would be no level playing field. They strongly encouraged the IESBA to consider developing a profession-agnostic Part 4B for other sustainability assurance engagements that are not within the scope of Part 5.

<sup>47</sup> UNCTAD-ARP, CAI, SOCPA

<sup>48</sup> CAANZ ISCA

<sup>49</sup> ACCA, AE, Mazars, RSM, CAANZ, CNCC-CNOEC, ICAEW, IDW, IFAC, ISCA, JICPA, PICPA, CPAC, RSM

75. In its comment letter, IOSCO suggested that the IESBA consider extending the scope of the IIS in Part 5 to all assurance over sustainability information required to be provided in accordance with law or regulation (such as a specific sustainability metric), not only such information reported in accordance with a general-purpose framework.
76. A few respondents<sup>50</sup> suggested that the independence requirements of Part 5 apply to all sustainability assurance engagements on sustainability information prepared in accordance with a general-purpose framework regardless of whether the reporting is public or for restricted use. It was pointed out that a report for restricted use and distribution, for example, one prepared for a bank for green financing, may also influence several stakeholders and have a greater financial impact.
77. A few respondents<sup>51</sup> raised that in certain jurisdictions sustainability information was not required to be provided by law or regulation. They felt that the ED was not clear on whether or not a sustainability assurance engagement on sustainability information that is voluntarily disclosed falls within the scope of the IIS in Part 5. They suggested that the paragraph on the scope of IIS in Part 5 specifically address voluntary reports too.

#### *Clarification to Engagements Scoped in IIS in Part 5*

78. Some respondents<sup>52</sup> were concerned that the terminology used to describe the sustainability assurance engagements with the same level of public interest as audit engagements was not sufficiently clear (e.g., general vs specific framework, attestation vs. direct engagement, reasonable vs limited assurance). They suggested that the IESBA provide further guidance and examples regarding engagements within the scope of the IIS in Part 5 to enable consistent application of independence requirements.
79. In addition, there were some requests<sup>53</sup> for clarification regarding the criteria for the sustainability information to be “publicly disclosed to support decision-making by investors or other stakeholders.”

### **TF Views and Proposals**

#### *Extending the Scope of IIS in Part 5*

80. Regarding the proposed scope, the TF reiterated its approach that the IIS in Part 5 should first focus on sustainability assurance engagements with the same level of public interest as the audit of the financial statements. The TF believes that the criteria provided in the ED appropriately capture the sustainability assurance engagements that are equivalent to the audit engagements from a public interest perspective. The Task Force notes that jurisdictions have the option to determine that other types of sustainability assurance engagements have such an impact on stakeholders in the specific jurisdiction that the SAP should also comply with the IIS in Part 5. However, given the current global regulatory background, the Task Force does not propose any changes to the determination of which engagements have the same level of public interest as an audit of the financial statements at the global level.

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<sup>50</sup> MIA (Malaysia), ISCA

<sup>51</sup> SAICA, CPAA, CPAC, Moore

<sup>52</sup> CNCC-CNOEC, IBA, ICPAU, CPAA, IFAC, PAFA, KPMG

<sup>53</sup> AICPA, CPAA, CAANZ, JICPA, PICPA, KICPA, PWC, IBA

81. The Task Force also emphasizes that for sustainability assurance engagements that do not fall within the scope of the IIS in Part 5, the extant Part 4B already provides a robust independence framework. Furthermore, the IESBA has already made a commitment in its SWP 2024-2027 to consider changes to Part 4B of the Code to develop a profession-agnostic framework for other sustainability assurance engagements in the near future.
82. In light of the above, the Task Force does not propose any significant changes to the proposed scope of the IIS in Part 5.

*Clarification to Engagements Scoped in IIS in Part 5*

83. To respond to stakeholders' questions and request for further clarifications regarding the specific criteria in paragraph 5300.4a and examples of specific engagements that would meet such criteria, the Task Force suggests that IESBA commission the IESBA Staff to develop non-authoritative guidance, such as Frequently Asked Questions, to provide detailed responses to the approach and the specific points raised.
84. In terms of editorial changes, however, the Task Force proposes:
- Changing the reference to “users” in paragraph 5400.3a(b)(ii) as a clarification.
  - Moving up the proposed paragraph 5400.3c explaining that the IIS in Part 5 apply to both reasonable and limited assurance engagements so that it would be situated before paragraph 5400.3a on the scope.

**Matter for IESBA Consideration**

3. IESBA members are asked to share views on the TF’s responses to the comments regarding the scope of the IIS in Part 5.

**D. Structure of Part 5**

**Question 6**

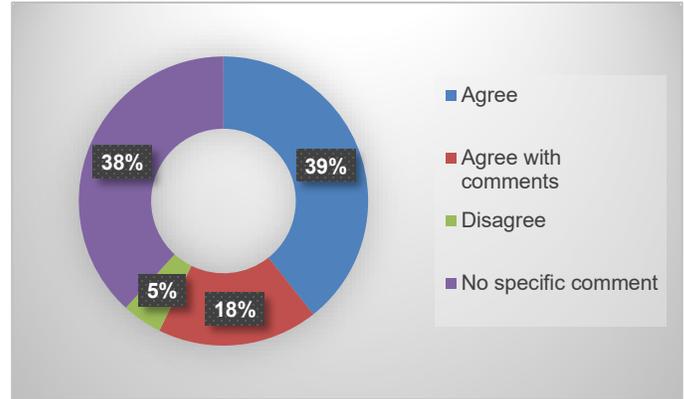
***Do you support including Section 5270 in Chapter 1 of the ED?***

85. For equivalence purposes, the starting point for the Sustainability project was the extant Code, in which the ethics standards applying to audits of financial statements are set out in Parts 1 and 3 and the applicable independence requirements in Part 4A. The standards in Part 2 of the extant Code were not replicated in Part 5, since Part 2 applies to PAs in business, who do not perform audits of financial statements.
86. However, an exception was made to Section 270 because pressure to breach the fundamental principles, which might arise in different situations and is not explicitly covered by the Part 1 equivalent standards in the IESSA, might compromise the performance of sustainability assurance engagements and consequently impair the public trust in it. Therefore, Section 5270 was included in the proposed IESSA.

## Overview of Responses

87. Responses to Question 6 were as follows (see separate NVivo report in **Agenda Item 2-C.6** for details):

- 35 respondents agreed – 39%;
- 16 respondents agreed with comments – 18%;
- 4 respondents did not agree – 5%; and
- 34 respondents did not have a specific response – 38%.



## Respondents' Comments

88. A substantial body of respondents giving an opinion supported the inclusion of Section 5270 in the IESSA.

### *No Support for the Inclusion of Section 5270*

89. Some respondents<sup>54</sup> did not support the inclusion of Section 5270 in the IESSA for the following reasons:

- It would be more appropriate to enhance Part 1 of the Code instead, considering the universal significance of resisting pressure across all activities and professions, regardless of whether the practitioner is a PA or a non-PA.
- The provisions in proposed Section 5270 are already covered by the fundamental principles.
- Section 5270 mirrors a section that in the extant Code applies to PAs in business (Part 2 of the Code), not PAs in public practice (Part 3 of the Code).
- Any relevant points from extant Section 270 that might be missing regarding the pressure on the SAP to breach the fundamental principles could be added in Section 5120 or other sections in Part 5 that cover the same topic (such as fees in Section 5330 or inducements in Section 5340).

### *Scope of Section 5270*

90. A few respondents<sup>55</sup> considered that Section 5270 should be scoped differently, with one of them suggesting that the scope of the obligations in Section 5270 be limited to sustainability assurance engagements and not extend to other professional services that the SAP may provide. This comment is connected to the remarks made with respect to Question 4 about some non-PAs being subject to other codes of conduct.

<sup>54</sup> IRBA, CNCC-CNOEC, WPK, KPMG

<sup>55</sup> MIA (Malaysia), BDO, IBA

### Examples in Section 5270

91. Some respondents<sup>56</sup> commented on the examples set out in Section 5270, suggesting the inclusion of examples of pressure from the client regarding greenwashing as well as the tailoring of the examples to the specificities of sustainability assurance engagements, e.g. in terms of the scope of the service.

### Other Matters

92. A few respondents<sup>57</sup> suggested adding an equivalent to Section 230, on acting with sufficient expertise, to Part 5 noting that:
- Section 230 provides relevant guidance to examples in Section 5270.
  - It is important to have sufficient knowledge of the context of the sustainability information.

### TF Views and Proposals

93. The TF proposes to retain Section 5270 in Part 5 given the substantial support from respondents and the fact that it does not create any inconsistency with the rest of Part 5.
94. The TF proposes to retain the scope of Section 5270, i.e., aligned with the scope of the remaining ethics provisions in Part 5, considering that Part 5 might be the only set of ethics standards that applies to some non-PAs.
95. The TF proposes to revise paragraph 5270.3 A1 in **Agenda Item 2-A** to clarify that the inclusion of Section 5270 in Part 5 is connected to the relationship between the SAP and the sustainability assurance client as well as paragraph 5270.3 A2 to add examples of pressure from a sustainability assurance client related to the scope of the service.

### Other Matters

96. When agreeing to add Section 5270 to Part 5 in the ED, the IESBA considered whether other sections of extant Part 2 also merited an equivalent in Part 5. This is because in certain circumstances Part 2 can also apply to PAs in public practice who perform audits of financial statements via the "applicability provisions" (see paragraphs 120.4, R300.5, and 300.5 A1 of the extant Code).
97. With regards to extant Section 230 in particular, the IESBA agreed it was unnecessary to include it in Part 5 because its provisions are essentially covered by the fundamental principles of integrity and professional competence. The TF considers the points made by the respondents in this respect did not warrant a change of this conclusion.

#### **Matter for IESBA Consideration**

4. IESBA members are asked to share views on the TF's proposals relating to Section 5270, including to:
- Retain Section 5270 in the IESSA.
  - Revise paragraphs 5270.3 A1 and 5270.3 A2.

<sup>56</sup> AE, IDW, IWP, NBA, SOCPA, DTTL

<sup>57</sup> APESB, NZAuASB

- Retain the decision not to add an equivalent to Section 230 to the IESSA.

## E. Responding to Non-Compliance with Laws and Regulations™ (NOCLAR®)

### Question 7

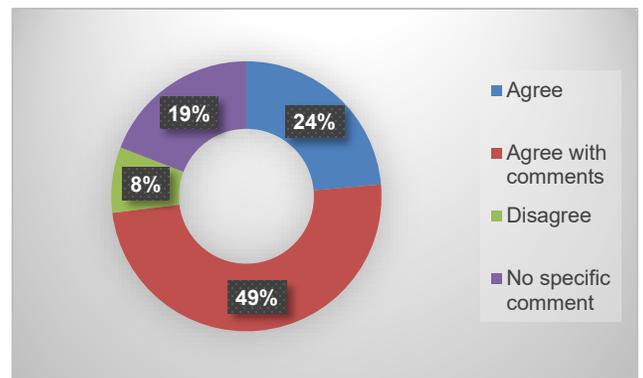
***Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other?***

98. The proposed Section 5360 deals with non-compliance with laws and regulations (NOCLAR). Similar to extant Section 360, the scope of this section in the IESSA is centered on actual or suspected NOCLAR that the practitioner becomes aware of in the course of providing services to the sustainability assurance client.
99. The premise of the NOCLAR regime in Parts 3 and 5 of the Code is that management and those charged with governance (TCWG) are primarily responsible for responding to NOCLAR situations identified by the practitioner. Communication of NOCLAR by the practitioner to any other third parties (i.e., those beyond management and TCWG) is a backup remedy. This is evidenced by paragraphs 5360.8 A1 and 360.8 A1 as well as the factor set out in the fourth bullet of extant paragraph 360.34 A1 which was replicated in proposed paragraphs 5360.18b A1 and 360.18b A1.<sup>58</sup>
100. Within this context, the ED proposal was for the auditor and the SAP to consider communicating to each other instances of actual or suspected NOCLAR under certain conditions as set out in proposed paragraphs R5360.18a to 5360.18a A2 (in Part 5 of the Code) and R360.18a to 360.18a A2 (in Part 3 of the Code).

### Overview of Responses

101. Responses to Question 7 were as follows (see separate NVivo report in **Agenda Item 2-C.7** for details):

- 21 respondents agreed – 24%;
- 44 respondents agreed with comments – 49%;
- 7 respondents did not agree – 8%; and
- 17 respondents did not have a specific response – 19%.



<sup>58</sup> That is, the fact that management or TCWG have or have not already informed the auditor about the NOCLAR matter is important information for the PA to take into consideration when deciding whether to communicate such NOCLAR matter to the client's auditor.

## Respondents' Comments

102. A substantial body of respondents supported the approach proposed in the ED.

### *Proposed Communication Requirements Between the Auditor and the SAP*

103. Respondents expressed mixed views regarding the existence and stringency of the proposed requirements to consider communicating NOCLAR to the auditor or the SAP:

- Some respondents<sup>59</sup> did not support the proposed new requirements and suggested that they are turned into application material for the following reasons:
  - Communication of NOCLAR is primarily the entity's responsibility.
  - Risk of sharing confidential information especially if the practitioners belong to different firms or networks.
- A few respondents<sup>60</sup> considered that the auditor should not be required to consider communicating NOCLAR to the SAP, due to:
  - The risk of inappropriate confidentiality breaches, because SAPs may not have the same professional obligations or oversight as auditors.
  - The auditor may not be aware of the existence of any SAPs or the nature of the sustainability assurance engagement performed.
- Several respondents<sup>61</sup> (mostly from the regulatory community), including one MG member, suggested strengthening the proposed requirement from considering to communicate into communicating, in order to avoid the risks of inconsistent application.

### *Communication with Other SAPs*

104. Some respondents<sup>62</sup> considered that it would also be important for the auditor or SAP to communicate NOCLAR to other SAPs that might be performing other sustainability assurance engagements for the same client. It was noted that an entity might appoint more than one SAP, although it was acknowledged that this might be rare and/or a transitory situation. In such a case, complete information sharing about NOCLAR would facilitate the other SAPs' consideration of the implications thereof on their ability to comply with the fundamental principles of integrity and professional behavior, thus increasing the effectiveness of the collective assurance provided.

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<sup>59</sup> PAABZ, AICPA, PICPA, BDO, KPMG, GTIL

<sup>60</sup> IRBA, ISCA

<sup>61</sup> CEAOB, ESMA, IAASA, IFIAR, IOSCO, SAAJ, CAI, JAB

<sup>62</sup> SAAJ, AGNZ, SOCPA, Mazars, AFAANZ

*List of Factors for the Auditor and the SAP to Consider Before Communicating NOCLAR to Each Other*

105. A few respondents<sup>63</sup> provided feedback on the list of factors in proposed paragraphs 5360.18a A1 and 360.18a A1. They suggested qualifying the fourth bullet<sup>64</sup> so that the practitioner considering making the communication would confirm that management or TCWG had in fact already made that communication and that it was complete and accurate.

*Practical Challenges Regarding the NOCLAR Regime*

106. Many respondents<sup>65</sup> noted that communication of NOCLAR between practitioners might be limited or prohibited by local laws, regulations or professional standards, or conditioned to compliance with the principle of confidentiality.

- One respondent<sup>66</sup> mentioned that Section 5360 includes communication requirements that apply to SAPs who are lawyers that would contravene their duties of confidentiality under jurisdictional professional conduct rules and legal obligations to maintain legal professional privilege.

107. A few respondents<sup>67</sup> considered that having mirroring NOCLAR regimes for SAPs (in Part 5 of the Code) and auditors (in Part 3 of the Code) created a risk of inconsistent or duplicated reporting to management or TCWG, or inconsistent or duplicated determination of whether to disclose the matter to an appropriate authority (especially if the auditor and the SAP belonged to different firms or networks).

- One respondent<sup>68</sup> also noted a risk of duplication of efforts (by the SAP and the auditor) in the understanding and assessment of the facts related to the non-compliance situation because the same NOCLAR issue may be relevant for both an audit and a sustainability assurance engagement albeit in different ways.

108. A few respondents<sup>69</sup> questioned the introduction of the word “impacts” in paragraphs 360.3 and 5360.3. They considered that the references to “*material...impacts...in the client’s sustainability information*” and “*material...impacts...in the client’s financial statements*” were unclear.

*List of Laws and Regulations Subject to the NOCLAR Regime*

109. Respondents expressed mixed views regarding the examples in the proposed list of laws and regulations in paragraphs 5360.5 A2 and 360.5 A2:

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<sup>63</sup> IDW, CAI

<sup>64</sup> This bullet identifies whether management or TCWG have already informed the SAP/auditor about the NOCLAR matter as important information for the auditor/SAP (respectively) to take into consideration when deciding whether to communicate such NOCLAR matter.

<sup>65</sup> ACCA, AICPA, CAANZ, ICAEW, ICAS, IDW, IFAC, JICPA, KICPA, MIA (Malaysia), PICPA, PAFA, SAICA, WPK, BDO, GTIL, MU, KPMG, IBA

<sup>66</sup> IBA

<sup>67</sup> SAICA, BDO

<sup>68</sup> BDO

<sup>69</sup> AICPA, PICPA

- Some respondents<sup>70</sup> considered certain areas too broad (e.g., consumer rights).
- One respondent<sup>71</sup> suggested adding more examples of sustainability-related laws and regulations, such as biodiversity and circular economy.

### *NOCLAR in the Value Chain*

110. Some respondents provided feedback regarding value chain entities:

- A few respondents<sup>72</sup> supported the ED proposal to scope out value chain entities from the NOCLAR regime in Section 5360 whilst a few respondents<sup>73</sup> supported scoping them in.
- One respondent<sup>74</sup> requested guidance in Section 5360 for the situations where the SAP encounters NOCLAR in the value chain.

### *Request for Further Guidance*

111. A few respondents<sup>75</sup> requested clarification that the SAP is not expected to search for instances of NOCLAR and that Section 5360 deals only with situations of NOCLAR that the practitioner becomes aware of in the course of providing services to the sustainability assurance client.

112. Other requests for guidance<sup>76</sup> included:

- Guidance on the communication between the SAP or the auditor, on the one hand, and management and TCWG, on the other hand.
- Sustainability-related examples and scenarios regarding practical timing issues, i.e., to explain how NOCLAR should be considered in relation to specific reporting frameworks and what thinking processes the SAP should follow when dealing with NOCLAR.

## **TF Views and Proposals**

### *Proposed Communication Requirements Between the Auditor and the SAP*

113. At its June 2024 IESBA meeting, the IESBA supported the TF's preliminary proposal to adopt an approach that mirrors the one set out in extant paragraphs R360.31 to R360.33 relating to the communication of NOCLAR to an entity's auditor by a PA performing a non-audit service. The TF's proposal means:

- Turning the proposed requirement to consider communication into a requirement to communicate, subject to the relevant laws and regulations, if the SAP and the auditor belong to the same firm; and

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<sup>70</sup> CNCC-CNOEC, IFAC, IWP, DTTL

<sup>71</sup> IDW

<sup>72</sup> EFAA, CPAC, Mazars

<sup>73</sup> ESMA, ICAS

<sup>74</sup> IDW

<sup>75</sup> ACCA, AE, IWP

<sup>76</sup> SAAJ, NZAuASB, ICAS

- Retaining the requirement to consider communication if the SAP and the auditor belong to the same network or to different firms or networks.

114. This TF proposal is based on the following reasons:

- It is a balanced approach considering the respondents' mixed views, i.e., it is a middle ground between the support from a large body of the respondents for the ED proposal and the suggestion from non-supporting respondents to turn the proposed requirements into application material.
- It takes into consideration:
  - On the one hand, the regulatory perspective of oversight and enforcement, which is facilitated by the existence of a requirement to communicate (when both practitioners belong to the same firm) and the fact that the judgments made by the practitioners (when they belong to the same network or to different firms or networks) when considering the communication are covered by the documentation provisions (see paragraphs R5360.28 and R360.28); and
  - On the other hand, the practical or legal challenges that practitioners may face when attempting to communicate with a provider of a *different* service that works *outside* their firm. It is also worth noting that those practical or legal challenges may significantly increase if the other practitioner's firm is a different legal entity based in another jurisdiction.<sup>77</sup>
- It is aligned with the NOCLAR regime's premise that the primary responsibility for dealing with NOCLAR – which includes communicating it to the relevant parties – lies with the entity (i.e., management and TCWG), not third-party service providers such as the auditor or the SAP.
- It recognizes that extending the requirement to communicate in all instances risks overloading the practitioner receiving the communication with information whose relevance they would need to assess when the primary responsibility for addressing the matter rests with the entity.

115. The TF's proposals are set out in paragraphs R5360.18a and R5360.18b (for the SAP) and R360.18a and R360.18b (for the auditor) in **Agenda Item 2-A**.

116. The TF notes one difference in these proposals between Part 3 and Part 5:

- Under Part 3, paragraphs R360.18a and R360.18b limit communication from the auditor to the SAP to instances where the client is a sustainability assurance client or a *group* component of a sustainability assurance client. The specification of "group component" instead of just "component" is necessary given the changes proposed to the "component" definition in the Glossary by including both "group component" and "value chain component" for a sustainability assurance engagement. This means that simply referring to "component" would scope in both group components and value chain components. Such a scenario could become

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<sup>77</sup> This is also mentioned in the [2015 Exposure Draft, Responding to Non-Compliance with Laws and Regulations](#), and the [2016 Basis for Conclusions, Responding to Non-Compliance with Laws and Regulations](#).

disproportionate and inoperable considering that the sustainability information of a value chain component can be used by many entities.<sup>78</sup>

- However, the TF considers it not necessary to make the same refinement in paragraphs R5360.18a and R5360.18b under Part 5 (i.e., reference to “component” is sufficient) since these provisions apply to the communication from the SAP to the auditor and the distinction between group component and value chain component is not relevant for the purposes of audit engagements.
117. As mentioned above, the TF proposal is symmetrical to the steps set out in the extant Code in terms of what is communicated to the auditor by a PA performing a NAS. Nonetheless, the TF acknowledges that NAS do not have the same level of public interest as sustainability assurance engagements within the scope of the IIS in Part 5.
118. Therefore, the TF proposes adding application material related to paragraph R5360.11 to clarify that the discussions between the SAP and management and TCWG are the appropriate forum for the SAP to expressly indicate the potential relevance of the NOCLAR matter for the audit of the entity’s financial statements and thus that it would be appropriate for management and TCWG to address such matter with the auditor.
119. This proposal (see paragraph 5360.11 A1(b) in **Agenda Item 2-A**) contributes to the NOCLAR matter identified by the SAP being effectively communicated to the auditor through management or TCWG. In this regard, the TF further notes that:
- The entity, and not the SAP, is primarily responsible for addressing NOCLAR. Therefore, any communication of NOCLAR to third parties (such as the auditor) should be made first by the entity.
  - As explained in the EM,<sup>79</sup> SAPs should not be required to determine the materiality of the NOCLAR situation to the audit of the financial statements because SAPs who are not PAs may not have that kind of expertise, especially if they are not familiar with integrated reporting. Therefore, the reasonable expectation from the SAP is to identify the matter with management and TCWG so they can discuss it with the auditor.
  - If management or TCWG has not disclosed the matter to the auditor, then the SAP would take that into account when considering communication to the auditor, as already set out in paragraph 5360.18b A1, third bullet in **Agenda Item 2-A**.
120. The TF proposes adding this application material to Part 5 only but not Part 3 for now. This is because there is an expectation that PAs are more familiar with the NOCLAR regime and thus more aware that the primary responsibility to address and communicate NOCLAR lies with the entity itself. Possible amendments to Part 3 of the Code could potentially be considered by the IESBA under the NOCLAR post-implementation review (PIR).

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<sup>78</sup> The TF recognizes the need to revise the provisions under the heading “Communication with Respect to Groups” in Part 3 (paragraphs R360.16 to 360.18 A1) and in Part 5 (paragraphs R5360.16 to 5360.18 A1) to assess if similar changes need to be made. The TF will analyze this topic after the IESBA September 2024 meeting.

<sup>79</sup> See footnote 24 of the [EM](#).

### *Communication with Other SAPs*

121. The TF believes the arguments presented by respondents have already been considered by the IESBA in the discussions leading to the approval of the ED.<sup>80</sup> When setting out its ED proposals, the TF considered practical, balanced solutions permitting the effective adoption and implementation of the standards and therefore aligned with the following PIF characteristics, in particular: clarity and conciseness of the standards, their scalability (over time), implementability, and enforceability.
122. The TF considers that the new application material proposed in paragraph 5360.11 A1(b) in **Agenda Item 2-A** could also apply to the communication, by management and TCWG, to other SAPs that might also be performing sustainability assurance engagements within the scope of IIS in Part 5. Therefore, the TF proposes that the new paragraph 5360.11 A1(b) expressly mentions other SAPs alongside the auditor as relevant parties to whom management and TCWG might reach out regarding the NOCLAR matter in question.

### *List of Factors for the Auditor and the SAP to Consider Before Communicating NOCLAR to Each Other*

123. Upon further review of the list of factors in paragraphs 5360.18b A1 and 360.18b A1 in **Agenda Item 2-A** in light of the respondents' comments, the TF proposes:
- To retain the first<sup>81</sup> and second<sup>82</sup> bullets as proposed because they cover instances where communication might be prohibited by acts of the legislative, administrative or judicial bodies.
  - To remove the third bullet<sup>83</sup> because these provisions are only relevant in the context of the provision of a sustainability assurance engagement or an audit of the financial statements.
  - To retain the fourth<sup>84</sup> bullet as proposed in the ED because:
    - Confirmation that management or TCWG have effectively made the communication should be included in the documentation procedures under paragraphs R5360.28 and R360.28.
    - Having the SAP/auditor consider whether the information provided by management or TCWG was complete and accurate as suggested by respondents would transfer responsibility from the entity to the practitioner.
    - Removing it would give the impression that management and TCWG are not primarily responsible for communicating NOCLAR to third parties, which they are. In addition, it would also mean duplicating the communication to the auditor/SAP and therefore create an unnecessary burden for the SAP/auditor.

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<sup>80</sup> See [Agenda Item 4-C](#) and [Agenda Item 4-D](#) of the September 2023 IESBA meeting.

<sup>81</sup> "Whether doing so would be contrary to law or regulation."

<sup>82</sup> "Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance."

<sup>83</sup> "Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action."

<sup>84</sup> "Whether management or those charged with governance have already informed the sustainability assurance client's external auditor about the matter."

- To remove the fifth<sup>85</sup> bullet because it has now been incorporated into the communication requirements set out in proposed paragraphs R5360.18a and R5360.18b (for the SAP) and R360.18a and R360.18b (for the auditor) in **Agenda Item 2-A**.

#### *Practical Challenges Regarding the NOCLAR Regime*

124. The TF notes that the communication between practitioners being subject to applicable local laws and regulations is embedded in the proposed provisions (see paragraphs R5360.18a and R360.18a, and the first bullet of paragraphs 5360.18b A1 and 360.18b A1 in **Agenda Item 2-A**).
125. In light of the respondents' comment on the need to articulate the communication requirements with the principle of confidentiality, the TF proposes revisions to paragraph R5360.9 in **Agenda Item 2-A** to remind SAPs of that fact. Although this topic was addressed in the EM,<sup>86</sup> the TF considers it sufficiently important to merit an explicit reference in the standards. The TF believes this is especially true for SAPs who are not PAs and therefore might not be as familiar with the Code. For this reason, the TF proposes making this change in Part 5 only for now. Possible amendments to Part 3 of the Code could potentially be considered by the IESBA as part of the NOCLAR PIR.
126. On the comment relating to the duties of confidentiality or legal professional privilege applying to SAPs who are lawyers, the TF notes the following:
- If the lawyer-SAP is performing a sustainability assurance engagement that is subject to the IIS in Part 5, then paragraphs R5360.18a, 5360.18b A1 (first bullet), 5360.20 A1 (first bullet) and 5360.25 A1 in **Agenda Item 2-A** already condition further action, including communication to third parties, by the SAP to compliance with applicable laws and regulations.
  - If the lawyer-SAP is performing a sustainability assurance engagement that is not subject to the IIS in Part 5, then the application of R5360.31, 5360.34 A1 (first bullet) and 5360.36 A3 (first bullet) in **Agenda Item 2-A** will reach the same outcome.
  - The TF is proposing to add paragraph 5100.2c in **Agenda Item 2-A**, acknowledging the existence of other codes of conduct that might apply to SAPs who are not PAs by virtue of their profession or professional affiliation (e.g., lawyers). See Question 4 above.
127. Regarding the comments on the risk of inconsistency or duplication due to mirroring NOCLAR regimes for auditors and SAPs, the TF proposes to add application material in Parts 3 and 5 highlighting the purpose of the communication is also for both practitioners to discuss and coordinate to the extent necessary relevant actions pursuant to the NOCLAR provisions. The IESBA was supportive of this proposal, on a preliminary basis, at the June 2024 IESBA meeting. See paragraphs 5360.18b A2(b) and 360.18b A2(b) in **Agenda Item 2-A**.
128. Regarding the comments on the risk of duplication of efforts by the auditor and the SAP, the TF considers there is no such duplication since the assessment of the relevance of the NOCLAR matter (for the audit of the financial statements or the sustainability assurance engagement) always needs to be made by the party receiving the communication.

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<sup>85</sup> "Whether and, if so, how the firm's or network firm's protocols or procedures address communication of non-compliance or suspected non-compliance within the firm or network firm."

<sup>86</sup> See paragraph 63 of the EM.

129. Regarding the comments on the use of “impacts” in paragraphs 5360.3, 260.3 and 360.3, the TF proposes to delete that word. Upon further reflection, the TF considers that the idea of material consequences of the breach of sustainability-related laws and regulations are sufficiently covered by the references to “disclosures” in (a) and (b) and “fundamental to the operating aspects of the client’s business, to its ability to continue its business” in (b). See the revised paragraphs in **Agenda Item 2-A**.

#### *List of Laws and Regulations Subject to the NOCLAR Regime*

130. The TF proposes no changes to the proposed list of laws and regulations in paragraphs 5360.5 A2 and 360.5 A2 in **Agenda Item 2-A**. The TF notes the list is non-exhaustive. The practitioners’ responsibility is defined by the scope of the service provided in accordance with paragraphs 5360.3 and 360.3, which determines the relevant laws and regulations of which the practitioner is expected to have knowledge.

#### *NOCLAR in the Value Chain*

131. At its June 2024 IESBA meeting, the IESBA supported the TF’s proposal, on a preliminary basis, not to include value chain entities in the NOCLAR regime in Section 5360. Reasons for this proposal include:

- The condition suggested by one of the respondents<sup>87</sup> (“*extension of NOCLAR provisions to value chain actors when this is relevant for the purpose of ultimately assessing the compliance of the value chain-related disclosure of the client with applicable sustainability reporting requirements*”) seems broad and could create practical challenges and/or unintended consequences when the SAP tried to retrieve information from the value chain entity.
- Part 5 already provides for the possibility of applying the NOCLAR regime when dealing with non-compliance in the value chain (see the last sentence of paragraph 5360.7 A3 in **Agenda Item 2-A**).
- A phased approach for complex matters such as NOCLAR and value chain implications may be more beneficial on balance and is an approach that respondents generally supported in terms of the IESSA as a whole.

132. The TF considers that this proposal recognizes the practical difficulties in this area, the need for the sustainability market to mature, and therefore the benefit of revisiting the IESBA standards at a later stage. It does not mean, however, that SAPs should simply ignore it when they have identified actual or suspected NOCLAR in the value chain. As mentioned above, proposed paragraph 5360.7 A3 acknowledges that the NOCLAR regime may be used for such situations.

#### *Request for Further Guidance*

133. The TF considers that paragraphs 5360.3 and 5360.10 A2 are clear that SAPs are not expected to search for instances of NOCLAR and that Section 5360 deals only with those situations in which the practitioner becomes aware of NOCLAR in the course of providing services to the sustainability assurance client. Therefore, the TF proposes no changes.

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<sup>87</sup> ESMA

134. Regarding other requests for guidance, the TF proposes that those are considered when the IESBA commissions the development of the implementation materials.

**Matter for IESBA Consideration**

5. IESBA members are asked to share views on the TF’s proposals on NOCLAR in Parts 3 and 5, including to:
- Delete “impacts” from paragraphs 5360.3, 260.3 and 360.3.
  - Add a reference to paragraph R5360.9 (Part 5 only) relating to the principle of confidentiality.
  - Add application material in paragraph 5360.11 A1 (Part 5 only) relating to the SAP reminding management and TCWG of their responsibility to communicate NOCLAR to the relevant parties including the auditor and other SAPs.
  - Revise the requirements for the SAP and the auditor to communicate NOCLAR to each other to mirror those set out in paragraphs R360.31 to R360.33 of the extant Code.
  - Revise the list of factors in paragraphs 5360.18b A1 and 360.18b A1.
  - Add application material to paragraphs 5360.18b A2 and 360.18b A2 for the coordination between the SAP and the auditor in respect of NOCLAR-related actions going forward.
  - Retain the ED proposals relating to the list of laws and regulations in paragraphs 5360.5 A2 and 360.5 A2; and the scoping out of value chain entities from the NOCLAR regime.

**Question 8**

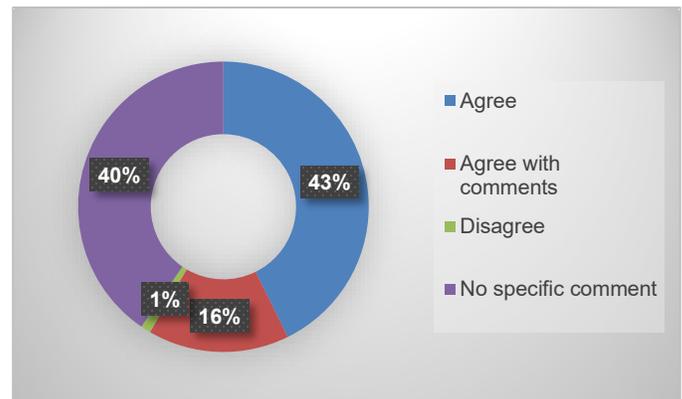
***Do you support expanding the scope of the extant requirement for PAIBs?***

135. The ED included corresponding revisions to extant Section 260 to align with the communication provisions proposed in Parts 3 and 5 in relation to NOCLAR. Those proposals required the senior PA to determine whether to disclose (actual or suspected) NOCLAR also to the employing organization’s sustainability assurance practitioner performing a sustainability assurance engagement within the scope of the IIS in Part 5.

**Overview of Responses**

136. Responses to Question 8 were as follows (see separate NVivo report in **Agenda Item 2-C.8** for details):

- 38 respondents agreed – 43%;
- 14 respondents agreed with comments – 16%;
- 1 respondent did not agree – 1%; and
- 36 respondents did not have a specific response – 40%.



## Respondents' Comments

137. A substantial body of respondents supported the approach proposed in the ED.
138. Some respondents<sup>88</sup> preferred the senior PA to determine whether to communicate NOCLAR to both the auditor and the SAP, if and when they are not the same practitioner.
139. Some respondents<sup>89</sup> requested the IESBA to ensure that communication of NOCLAR to the auditor and/or SAP is permitted by laws and regulations.
140. One respondent<sup>90</sup> suggested strengthening extant paragraph R260.15 from a requirement to determine whether to communicate NOCLAR to a requirement to communicate it.
141. One respondent<sup>91</sup> suggested that the IESBA consider the responsibilities of PAs in business outside the employing organization, i.e., in respect of value chain entities.

## TF Views and Proposals

142. Regarding the first comment, the TF notes that the ED proposal required the senior PA to determine whether to disclose NOCLAR to the employing organization's SAP, in addition to (not instead of) the auditor. Although the proposed revision to paragraph R260.15 was worded with an "or", this means "and/or" per the Code's drafting conventions. However, in light of the number of respondents raising the issue, the TF suggests using "and/or" for clarity.<sup>92</sup> See **Agenda Item 2-A**.
143. Regarding the second comment, the TF considers paragraph 260.15 A1 to be sufficiently clear when it mentions that the NOCLAR communication would be done pursuant to the PA's "*duty or legal obligation to provide all information necessary*" for the performance of the audit or the sustainability assurance engagement. The TF notes that the source of such duty or legal obligation would be a law or regulation. Therefore, the TF suggests no change.
144. The respondent did not justify its suggestion to strengthen the requirement in paragraph R260.15. Given this is a provision of the extant Code, the TF suggests no change.
145. Part 2 (including the NOCLAR regime) covers the relationship between PAs in business and their employing organization. Although recognizing that the value chain is an area specific to sustainability, the TF also acknowledges that the NOCLAR regime in Part 2 could have already scoped in third parties outside the employing organization, such as customers and suppliers, but it does not. As such, the TF suggests no change. Possible amendments to extend the NOCLAR regime to third parties outside the employing organization, beyond those scoped in under paragraph 260.5 A1(d), could potentially be considered by the IESBA under the NOCLAR PIR.

### **Matter for IESBA Consideration**

6. IESBA members are asked to share views on the TF's proposals on NOCLAR in Part 2, including the proposed change in paragraph R260.15 for clarification purposes.

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<sup>88</sup> AE, IDW, IFAC, MIA (Malta), NBA

<sup>89</sup> ICPAU, IDW, IFAC, SAICA

<sup>90</sup> IFAC

<sup>91</sup> CAI

<sup>92</sup> Other instances of "and/or" in the Code include extant paragraphs 220.8 A1 and 230.3 A2.

## F. Determination of PIEs

### Question 9

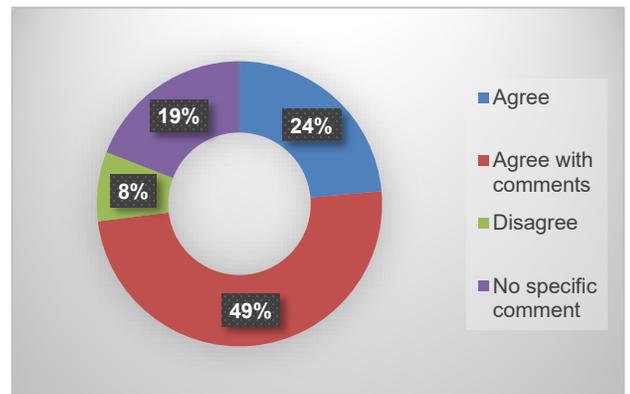
***For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements?***

146. Equivalent to the standards for audit engagements, the IESBA agreed to provide a proportionate and scalable approach in the IIS in Part 5 for sustainability assurance clients that are not PIEs. Therefore, some of the independence provisions in the ED were proposed to be applicable only to sustainability assurance engagements of PIEs.
147. The IESBA recognized that in the context of sustainability assurance engagements, stakeholders might also have heightened expectations given the nature of the entity and its sustainability information. However, the IESBA considered that in the context of the current regulatory environment, there would be a potential for confusion if an entity was determined to be a PIE solely on the basis of its sustainability information when it is not a PIE for the purposes of the audit of its financial statements. Therefore, the IESBA proposed in the ED that an entity be deemed to be a PIE for the purposes of the sustainability assurance engagement if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A.
148. However, in the case of a voluntary determination by the auditor of whether to treat an entity as a PIE for purposes of the audit of its financial statements, i.e., when the entity does not fall within the PIE definition, the IESBA did not believe that it would be appropriate for the Code to require another firm performing the sustainability assurance engagement to treat the entity as a PIE. Therefore, in such circumstance, the ED did not require the SAP to comply with the more stringent provisions in the IIS in Part 5 applicable to PIEs.
149. If a sustainability assurance client is a PIE, the ED required the firm to publicly disclose that it has applied the independence requirements for PIEs in the same manner as Part 4A requires for audit engagements.

### Overview of Responses

150. Responses to Question 9 were as follows (see separate NVivo report in **Agenda Item 2-C.9** for details):

- 31 respondents agreed – 35%;
- 28 respondents agreed with comments – 31%;
- 7 respondents did not agree – 8%; and
- 23 respondents did not have a specific response – 26%.



## Respondents' Comments

### *Determination of a PIE*

151. A substantial body of commentators supported the proposed approach to proportionality and scalability. They recognized the arguments to keep the determination of a PIE for audits of financial statements and sustainability assurance engagements aligned at a global level. There were a few respondents<sup>93</sup> who had concerns that given the lack of maturity in sustainability reporting, the PIE requirements may create a potential barrier to entry when the SAP is not also the financial statement auditor. They suggested that the IESBA defer the application of the PIE independence requirements to sustainability assurance engagements until further information is available to identify sustainability information that is of public interest.
152. Among those who supported the proposal, some respondents<sup>94</sup> suggested that the IESBA should consider revisiting the proposed approach in the future as sustainability reporting develops.
153. However, there were some respondents<sup>95</sup> who believed that relying solely on the entity's financial condition is not an appropriate approach to determining the significance of the public interest in an entity for the purposes of sustainability engagement. Regardless of the entity's financial condition, they felt that matters related to sustainability should also be considered when determining the entity's PIE status. A few respondents<sup>96</sup> pointed out that the proposal would make some sustainability assurance engagements subject to the more stringent PIE requirements based on the entity's financial conditions even if the sustainability information is not of significant public interest.
154. To address the potential issues raised above, there were a few suggestions<sup>97</sup> for adding sustainability-related factors that the SAP should also consider when evaluating the extent of public interest in an entity. An MG member<sup>98</sup> suggested that the IIS in Part 5 require the SAP to consider if a reasonable and informed third party might think that the entity should be treated as a PIE for the purposes of the sustainability assurance engagement. The MG member noted that while the primary determinant would be whether the entity is a PIE for the financial audit, SAPs should make an additional judgment as to whether, in exceptional cases, the entity should be treated as a PIE for sustainability assurance purposes.
155. There were questions and comments from a few regulatory respondents<sup>99</sup> on whether the SAP should treat an entity as a PIE for purposes of the IIS in Part 5 if the national laws or regulations in the specific jurisdiction has established a PIE definition solely for the purposes of a sustainability assurance engagement.

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<sup>93</sup> AICPA, IWP

<sup>94</sup> BOA, IRBA, APESB, NZAuASB, CPAC, EFAA, ICAEW, IFAC, PAFA, MU, PWC, IBA

<sup>95</sup> AICPA, CPAA, IWP, MIA (Malaysia), GTIL, KPMG, AFAANZ, NSU

<sup>96</sup> CPAA, MIA (Malaysia), GTIL

<sup>97</sup> ACCA, MIA (Malaysia), Moore, RSM

<sup>98</sup> IFIAR

<sup>99</sup> CEAOB, IAASA

### *Entities Determined by a Firm Voluntarily as PIEs*

156. A few respondents<sup>100</sup> disagreed with the ED proposal in relation to entities determined voluntarily as PIEs as they felt that there was a potential for confusion if an entity was determined voluntarily by a firm to be a PIE for the purposes of the audit of its financial statements but not for the sustainability assurance engagement. It was suggested<sup>101</sup> that the IIS in Part 5 require the SAP to consider the criteria that led the financial statement auditor to voluntarily treat the entity as a PIE and determine whether this may also be appropriate for the purposes of sustainability assurance. Alternatively, it was also raised by a few respondents<sup>102</sup> that the IIS should provide criteria or factors for the SAP's consideration to determine whether or not to voluntarily treat an entity as a PIE, even when the financial statement auditor has not elected to do so.

### *Transparency*

157. When the SAP is not also the entity's auditor, a few respondents<sup>103</sup> pointed out potential practical issues in relation to the determination of the PIE status of the sustainability assurance client by the SAP, especially if the auditor has exercised professional judgment to designate an entity as a PIE or if there is a change to the entity's PIE status. They suggested that the IESBA consider adding provisions regarding communication between the SAP and the auditor on that matter.

158. A few respondents<sup>104</sup> also emphasized the importance of coordination between the IESBA and IAASB (and other standards setters) to operationalize the IESBA's transparency requirement regarding the application of the PIE independence requirements and to achieve interoperability.

### *Other Comments*

159. There were some comments and requests for clarification regarding:

- The applicability of the PIE definition in the Glossary to Part 5.<sup>105</sup>
- The implications if the auditor or the SAP voluntarily treats an entity as a PIE.<sup>106</sup>

160. Regarding the determination of an entity as a PIE and its related entities, a few respondents<sup>107</sup> pointed out that the definition of a PIE and determination of related entities were developed for the purposes of the audit of the financial statements. They believed that the approach to related entities is not appropriate for sustainability assurance engagements as the sustainability information of related entities – as defined in the Glossary – might not be included in the sustainability client's report.

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<sup>100</sup> PAABZ, SOCPA

<sup>101</sup> AE, IDW

<sup>102</sup> IDW, JICPA

<sup>103</sup> IFAC, JICPA, PAFA, EY, Moore, RSM

<sup>104</sup> IOSCO, ACCA, EY

<sup>105</sup> ACRA, CEAOB, IAASA, CNCC-CNOEC, ICAS, WPK, KPMG, PFK, RSM

<sup>106</sup> AE, CAANZ, MIA (Malta), IDW, EY, Mazars, RSM

<sup>107</sup> GTIL, EY

## **TF Views and Proposals**

### *Determination of a PIE*

161. The TF agrees that interest in an entity's financial condition is not the only factor that could influence the significance of the public interest in an entity. However, the TF echoes the IESBA's previous position that creating a globally applicable PIE definition for the purposes of sustainability assurance engagements would not be timely and appropriate in the current regulatory environment. The TF also notes that it was not the financial condition of reporting entities that steered the ED's proposal. The IESBA recognized the interconnectivity between the sustainability information and the financial statements. The IESBA also acknowledged the potential for confusion if an entity was determined to be a PIE solely on the basis of its sustainability information when it is not a PIE for the purposes of the audit of its financial statements.
162. Nevertheless, the TF proposes to acknowledge and emphasize in the IIS in Part 5 that specific jurisdictions and national laws and regulations might already have established sustainability-specific factors and determined an entity to be a PIE solely for the purposes of sustainability assurance. (See paragraph 5400.13b.)

### *Entities Determined by a Firm Voluntarily as PIEs*

163. The TF reiterates the approach in the ED that the decision of the auditor to treat the entity as a PIE voluntarily should not create an obligation for another firm to apply the more stringent PIE provisions to the sustainability assurance engagement. Since there is no requirement to treat the entity as a PIE in such situations, the TF does not believe that it would be appropriate to require the SAP to consider the factors that influenced the auditor's decision. Regarding the provision of additional factors for the voluntary application of PIE provisions in Part 5, the TF believes that the IESBA will be better positioned to consider the need to develop such factors once the global and national regulatory landscape and the sustainability assurance market have matured further.

### *Transparency*

164. The TF considered the comments raising practical issues regarding the determination of whether or not the entity is a PIE for the purposes of the sustainability assurance engagement without communication with the auditor of the financial statements. The TF believes that the application of the PIE definition under the Code and the determination of a PIE for the purposes of the audit engagement do not warrant any specific information or communication with the auditor. Even if the SAP cannot rely on the auditor's public disclosure of the entity's PIE status for the audit of its financial statements, the SAP should be able to determine the PIE status and any changes to it based on the Code's provisions and the relevant national laws and regulations governing PIEs. Therefore, the TF does not propose any communication requirement between the SAP and the auditor on that matter.
165. The TF coordinated with the IAASB TF on the matter of transparency regarding the application of the PIE independence requirements. The IAASB has agreed to mirror the current approach regarding such transparency matter as set out in ISA 700 (Revised) in the context of an audit of financial statements, in proposed ISSA 5000.

### Other Matters

166. The TF also suggests that the IESBA commission IESBA Staff to develop non-authoritative guidance regarding the determination of PIEs for the purposes of the IIS in Part 5.
167. Regarding the determination of related entities in the context of a sustainability assurance engagement, the TF took a similar approach to the determination of PIEs. The Task Force believes that the related entities of a client should be the same for the audit of the financial statements and the sustainability assurance engagement. The determination of the related entities relates to the chain of control or significant influence of the reporting entity and it does not depend on whether the sustainability information of the specific related entity is included in the client's sustainability report or financial statements. Therefore, in the current regulatory environment, the TF believes there would be a potential for confusion if the related entities of the reporting entity were not the same for the purposes of the sustainability assurance engagement and the audit of the financial statements.

#### **Matter for IESBA Consideration**

7. IESBA members are asked to share views on the TF's proposals regarding the determination of PIEs for the purposes of sustainability assurance engagements, including the proposed change in paragraph 5400.13b.

## G. Group Sustainability Assurance Engagements

### **Question 10**

***The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements.***

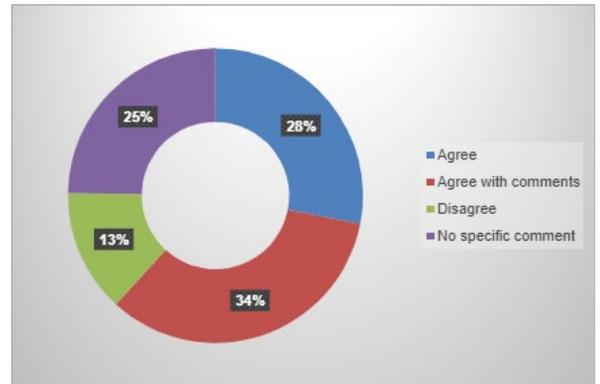
- (a) Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?***
- (b) If you support addressing group sustainability assurance engagements in the IIS in Part 5:***
- (i) Do you support that the independence provisions applicable to group sustainability assurance engagements be at the same level, and achieve the same objectives, as those applicable to a group audit engagement (see Section 5405)?***
- (ii) Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement?***
- (iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, "group sustainability assurance engagement" and "component")?***

168. The IESBA considered that sustainability reporting and assurance will be mandatory mostly for entities that operate as groups, at least in the initial years when laws and regulations mandating sustainability reporting and assurance become effective. In addition, certain sustainability reporting frameworks already require reporting on a consolidated basis. While developing the ED, the IESBA recognized that ISSA 5000-ED addressed group sustainability assurance engagements only in a general and overarching way. However, the IESBA was of the view that not explicitly addressing group sustainability assurance engagements in Part 5 would detract from the premise that the independence standards in Part 5 are equivalent to those for audit engagements in Part 4A.
169. Therefore, the ED expressly addressed the independence considerations for group sustainability assurance engagements, i.e., when a group sustainability assurance firm and any component sustainability assurance firms, and members of the sustainability assurance team carry out the assurance work. The relevant provisions in proposed Section 5405 of the ED were equivalent to the independence standards applicable to group audit engagements. The IESBA also proposed that the terms and definitions in Section 5405, such as group sustainability assurance firm, component sustainability assurance firm and group sustainability assurance team, mirror the concepts in the equivalent terms used in the independence standards for group audit engagements. With respect to the determination of the entities and components within the group, the ED proposed that the component definition excludes entities within the value chain.

### Overview of Responses

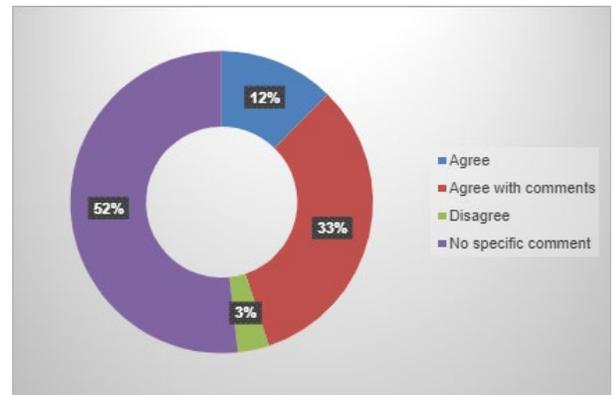
170. Responses to Question 10 (a) were as follows (see separate NVivo report in **Agenda Item 2-C.10** for details):

- 25 respondents agreed – 28%;
- 30 respondents agreed with comments – 34%;
- 12 respondents did not agree – 13 %; and
- 22 respondents did not have a specific response – 25%.



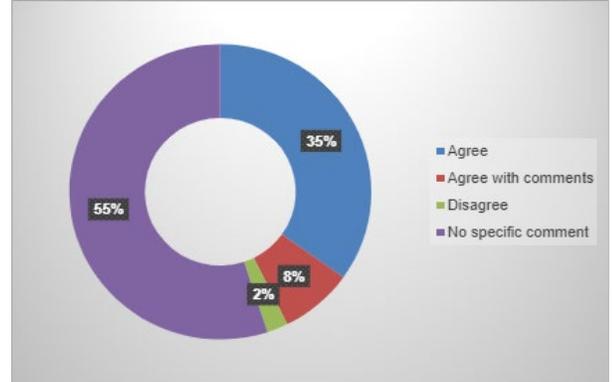
171. Responses to Question 10 (b)(i) were as follows (see separate NVivo report in **Agenda Item 2-C.10** for details):

- 11 respondents agreed – 12%;
- 29 respondents agreed with comments – 33%;
- 3 respondents did not agree – 3%; and
- 46 respondents did not have a specific response – 52%.



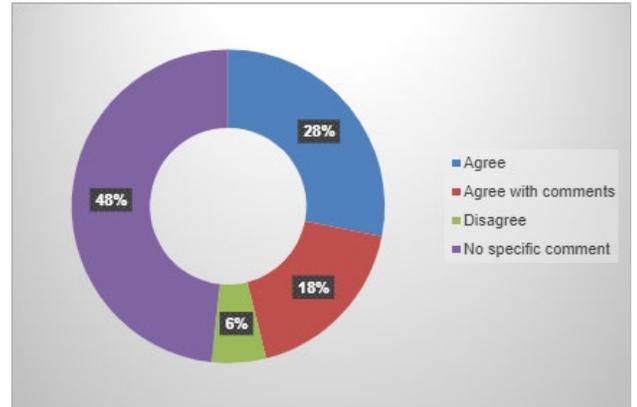
172. Responses to Question 10 (b)(ii) were as follows (see separate NVivo report in **Agenda Item 2-C.10** for details):

- 31 respondents agreed – 35%;
- 7 respondents agreed with comments – 8%;
- 2 respondents did not agree – 2%; and
- 55 respondents did not have a specific response – 49%.



173. Responses to Question 10 (b)(iii) were as follows (see separate NVivo report in **Agenda Item 2-C.10** for details):

- 21 respondents agreed – 28%;
- 16 respondents agreed with comments – 18%;
- 5 respondents did not agree – 6%; and
- 43 respondents did not have a specific response – 48%.



### Respondents' Comments

174. A substantial body of respondents giving opinions on that matter acknowledged that the regulatory environment tended to evolve towards mandating sustainability reporting and assurance for large entities and there are existing requirements for consolidated reporting in certain jurisdictions. Although they raised comments regarding the complexity and practicality of the proposals in the ED, they supported including specific independence considerations applicable to group sustainability assurance engagements.

### Coordination with IAASB and Other Standard Setters

175. Some respondents<sup>108</sup> who expressed support for including specific standards for group engagements encouraged the IESBA to coordinate with the IAASB, once the IAASB decides to also specifically address group sustainability assurance engagements. However, there were also many views<sup>109</sup> that the IESBA and IAASB needed to address groups and relevant terms and definitions holistically, at the same time. Some respondents<sup>110</sup> suggested that the IESBA does not specifically address group sustainability assurance engagements until the assurance standards, including ISSA 5000, provide specific requirements for group sustainability assurance engagements.

<sup>108</sup> IOSCO, SAAJ, WPK, ACCA, ICAEW, SAICA, Mazars, RSM, EY, IBA

<sup>109</sup> NZAASB, CAANZ, CNCC, IFAC, MIA (Malta), SAICA, WPK, BDO, RSM, BKTi, IBA

<sup>110</sup> DIR, AICPA, CPAA, FACPCE, Assirevi, BKTi, DTTL, GTIL, KPMG

176. A few respondents<sup>111</sup> suggested that the proposals inappropriately included performance standards before the IAASB had even developed such requirements in their standards, especially regarding the proposed requirement for communication between the group firm and the component firms, in line with ISA 600 (Revised).<sup>112</sup>
177. Regarding the proposed definitions of terms introduced in Section 5405 in the ED, a few respondents noted<sup>113</sup> that ISSA 5000-ED did not use the same terminologies or that the proposed definitions were not aligned. Many respondents<sup>114</sup> raised that the IAASB's proposals developed after the public consultation on ISSA 5000-ED provided a different determination for a "component" than the ED. They felt that this difference between the two standards could result in significant inconsistencies. It was also noted by a few respondents<sup>115</sup> that the proposed component definition, which excluded value chain entities as components, might not be in line with the concept of the reporting boundary in some sustainability reporting and assurance frameworks.

### Complexity

178. There were a few comments<sup>116</sup> that even with a good understanding of the defined terms, the proposed Section 5405 was overly complex, which would be potentially detrimental to consistent application. Several respondents<sup>117</sup> were of the view that SAPs who are not PAs and not familiar with the concepts and terminology used for purposes of a group audit in ISA 600 (Revised) (e.g., materiality, control, related party, etc.) could face potential challenges when implementing the proposed provisions. They believed it would be important that the IESBA to provide implementation support and guidance and coordinate with the International Organization for Standardization (ISO), IAF, and IAASB regarding that guidance.
179. There were views<sup>118</sup> that the approach based on the concepts in ISA 600 (Revised) and Section 405 may not be fully practicable and that the proposals should have taken into account the specific features of group sustainability information and assurance compared to group audit.
180. A few respondents<sup>119</sup> raised concern about some complexities regarding the communication and coordination between group sustainability assurance firms and component sustainability assurance firms across multiple entities within a group, especially if the parameters of the group differed from the group for the audit engagement. One particular area of perceived complexity was around the involvement of value chain entities.<sup>120</sup>

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<sup>111</sup> AICPA, RSM

<sup>112</sup> International Standard on Auditing 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>113</sup> CAANZ, IDW, KICPA, PKF, Mazars,

<sup>114</sup> ESMA, DIR, MIA (Malaysia), AICPA, CNCC, ICAEW, ISCA, ICAS, IDW, PWC, Mazars, KPMG, PKF, PWC

<sup>115</sup> SGX, ICAEW, Mazars

<sup>116</sup> IDW, AE, IWP, ICAEW, Mazars, RSM

<sup>117</sup> ACRA, IRBA, NASBA, SAAJ, APESB, EFAA, CPAC, HKICPA, ICAS, ICAEW, IDW, IPA, ISCA, CPAA, PAFA, ACCA, IFAC, SOCPA, Mazars

<sup>118</sup> AICPA, ICPAU, SOCPA, BDO

<sup>119</sup> IRBA, ACCA, BICA, CAI, SAICA, SOCPA, IDW, BDO, RSM, NSU

<sup>120</sup> DIR, IFAC, PAFA, RSM, PWC

181. A few respondents<sup>121</sup> referred to the pre-existing implementation challenges with respect to the independence standards for group audit engagements in Part 4A, especially the determination of components “at which assurance work is performed,” which they felt could be even more challenging in a less developed market.
182. Based on such perceived complexity, a few respondents<sup>122</sup> felt that the IESBA should only provide high-level requirements in this Section or guidance outside the Code and defer addressing group-specific scenarios until performance standards, such as ISSA 5000, develop further requirements on planning for group engagements.

## **TF Views and Proposals**

### *Coordination with the IAASB*

183. Regarding the comments on coordination with the IAASB and the interoperability of the proposals in Section 5405 with ISSA 5000, the TF notes that the IESBA Staff and TF have engaged in close coordination with the IAASB Staff and Sustainability TF regarding the matters raised in the comment letters on group sustainability assurance engagements. The public consultation on ISSA 5000-ED ended in December 2023. Based on the feedback received, the IAASB agreed to include specific provisions in ISSA 5000 addressing group sustainability assurance engagements, including the work of component practitioners.
184. In light of the amendments to proposed ISSA 5000 in relation to group sustainability assurance engagements and the close coordination between the IAASB and IESBA TFs on that matter, the TF proposes that the IIS in Part 5 retain the proposed independence standards for group sustainability assurance engagements.
185. The Task Force also notes that as a result of the coordination, the proposed terms and definitions in relation to group sustainability assurance engagements in **Agenda Item 2-A** and the September draft of ISSA 5000 are fully aligned. Such definitions include definitions of group, component, group component, value chain component, component practitioner, group sustainability assurance engagement, group sustainability assurance information and reporting boundary. (See Glossary in **Agenda Item 2-A**.)
186. Regarding the determination of components for the purposes of sustainability assurance engagements, the TF has developed a revised approach in coordination with the IAASB TF. First, the definition of a component continues to be broadly in line with that for a component in an audit engagement, but with regard to sustainability assurance, it includes “an entity, business unit, function or business activity, or some combination thereof, within the reporting boundary, determined by the group sustainability assurance firm for purposes of planning and performing assurance procedures in the group sustainability assurance engagement.” (See Glossary in **Agenda Item 2-A**)
187. Then, in line with the IAASB’s proposal, the TF proposes that two types of components be defined – group components and value chain components, depending on whether or not the component is within the reporting entity’s operational control. The determination of operational control relies on the applicable sustainability reporting framework. (See Glossary in **Agenda Item 2-A**)

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<sup>121</sup> AICPA, IWP, KPMG, RSM

<sup>122</sup> ACRA, NZAuASB, AE, AICPA, IWP, JICPA

188. The TF proposes that the Glossary define a group component as a component within the reporting entity's operational control, in line with the IAASB's explanation of a group component. The TF also proposes explanatory guidance to the definition in terms of how to determine that component for the purposes of the independence considerations, depending on whether the component is a legal entity or not. If the group component is a legal entity, the definition also covers the controlled entities of such legal entity.
189. Equivalent to the approach for group audits, the TF proposes that the group component at which assurance work is performed be part of the group sustainability assurance client definition. Consequently, any requirements and application material that apply with respect to the group sustainability assurance client would also apply to a group component at which assurance work is performed.
190. In relation to the definition of a group component, the TF notes there might be circumstances where an entity, or a business unit, function or business activity (or some combination thereof), within the client's value chain (as defined by the reporting framework) at which assurance work is performed is under the reporting entity's operational control. In those cases, in line with the approach taken by the IAASB, that value chain entity, or a business unit, function or business activity (or some combination thereof), would be a *group component* for the purposes of the IESSA.
191. Also in line with the proposals in ISSA 5000, the TF proposes to define a value chain component as a component outside the reporting entity's operational control. The proposed definition also addresses scenarios in which the component is a legal entity or a business unit, function or business activity (or some combination thereof). Given the nature of the relationship between the reporting entity and a value chain component outside its operational control the TF does not propose that the determination of a group sustainability assurance client include value chain components. Consequently, the provisions in the proposed IESSA that apply to the sustainability assurance client do not apply to value chain components. This approach is in line with the IESBA's original approach to value chain entities in the ED.
192. Based on the proposed new approach to value chain components, the TF also proposes restructuring Sections 5405, 5406, and 5407 to streamline and simplify the independence provisions with respect to value chain components. As a result of the restructuring, the Task Force proposes to:
- (a) Move the provisions in Section 5407 that apply to value chain entities to the revised Sections 5405 and 5406.
  - (b) Include provisions in revised Section 5405 applicable when a firm or a component practitioner performs assurance work at a value chain component; and
  - (c) Include provisions in revised Section 5406 applicable when a firm uses the assurance work of another practitioner at a value chain component.
193. In line with the ED proposals, the proposed Section 5405 sets out independence considerations for the group sustainability assurance firm and its network firms, component practitioners, and members of the sustainability assurance team from that firm or component practitioners in whose assurance work the firm can be sufficiently and appropriately involved. Based on the restructuring of the provisions in Section 5407 in the ED, Section 5405 now covers independence considerations applicable to a group sustainability assurance firm and component practitioners performing assurance work at a value chain component, and the sustainability assurance team members within

that firm or those component practitioners. (See paragraphs R5405.5a, R5405.8a, R5405.13a, 5405.17A1 in **Agenda Item 2-A.**)

#### Complexity

194. The TF acknowledges that the proposed standards for group sustainability assurance engagements might appear complex, especially on first-time application. Therefore, the Task Force recommends that the IESBA consider commissioning implementation support guidance related to group sustainability assurance engagements, especially having regard to non-PA SAPs and first-time application of the provisions. However, the TF believes that the changes it is proposing and the alignment with ISSA 5000 will help mitigate the concerns regarding complexity.
195. The TF also closely coordinated with the IAASB TF to address the potential practical challenges regarding the determination of components “at which assurance work is performed.” The TF noted that the identification of such components for scoping for independence purposes is in line with the approach proposed in ISSA 5000 concerning the overall planning for an engagement. See paragraph 258 below. In addition, the TF recommends that the IESBA commission the Staff to develop further guidance with respect to the determination of such components in an FAQ.

#### **Matter for IESBA Consideration**

8. IESBA members are asked to share views on the TF’s proposals regarding group sustainability assurance engagements, including:
- The changes to the component definition and the new concepts and definitions of group component and value chain component.
  - The changes to the requirements and application material in Section 5405 addressing the proposed new approach regarding group components and value chain components,

#### **H. Using the Work of Another Practitioner**

##### **Question 11**

***Section 5406 addresses the independence considerations applicable when the sustainability assurance practitioner plans to use the work of another practitioner who is not under the former’s direction, supervision and review but who carries out assurance work at a sustainability assurance client. Do you agree with the proposed independence provisions set out in Section 5406?***

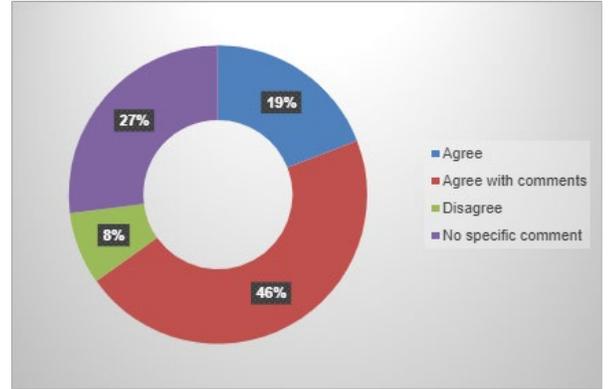
196. For the purpose of issuing an assurance report on sustainability information, a firm might wish to use the work of another practitioner who has already carried out, or will carry out, assurance work with respect to a group sustainability assurance client or a value chain component despite the firm not being able to be appropriately and sufficiently involved in the other practitioner’s work. In this regard, ISSA 5000-ED recognized and addressed the concept of using the work of “another practitioner.” To align with the proposed ISSA 5000, the ED set out independence considerations regarding using the work of another practitioner in a new Section 5406.
197. Recognizing that the firm cannot be involved in the work of another practitioner, the premise of the ED proposals in Section 5406 was that the IIS in Part 5 could not impose independence requirements

on another practitioner who might not even be subject to the Code. Accordingly, the ED set out requirements for the firm to communicate the applicable ethics and independence provisions and request confirmation of the other practitioner’s independence in accordance with Part 5.

### Overview of Responses

198. Responses to Question 11 were as follows (see separate NVivo report in **Agenda Item 2-C.11** for details):

- 17 respondents agreed – 19 %;
- 41 respondents agreed with comments – 46 %;
- 7 respondents did not agree – 8%; and
- 24 respondents did not have a specific response – 27%.



### Respondents’ Comments

#### *Approach to Using the Assurance Work of Another Practitioner*

199. A substantial body of respondents supported that the IIS in Part 5 establish relevant ethical requirements when the SAP intends to use the work of another practitioner as set out in the ISSA 5000-ED, as well as the premise underlying the ED proposals in Section 5406. They encouraged the IESBA to continue coordinating closely with IAASB on that matter.
200. However, a few respondents<sup>123</sup> noted that SAPs would generally do the assurance work themselves or be sufficiently involved in the work as opposed to relying on another practitioner. They felt that the proposal was not in line with the principles in ISA 600 (Revised) that apply to group audits. They also expected the assurance work of another practitioner to be used only with respect to value chain entities. There were a few comments<sup>124</sup> that the application of the proposals could create challenges from a regulatory enforcement standpoint.
201. There were some questions<sup>125</sup> about the concept of “using the work” of another practitioner. It was suggested that the IESBA clarify how this line of work would fit into the planning of the engagement and whether it is different from relying on a service organization’s report on controls in the case of a financial statement audit. There were a few comments and suggestions<sup>126</sup> for the IESBA to coordinate with the IAASB and also clarify, through some examples, who could meet the criteria of another practitioner.
202. Some respondents<sup>127</sup> had concerns regarding the operability of the proposals. They questioned how the SAP could communicate the relevant ethical requirements and request confirmation regarding the other practitioner’s compliance with those requirements if the SAP has no direction, supervision,

<sup>123</sup> IRBA, AICPA, IDW, PWC

<sup>124</sup> NASBA, PP

<sup>125</sup> AICPA, IDW, ISCA, EY, KPMG, ISCA, KPMG

<sup>126</sup> ESMA, NZAASB, EY, Mazars, CAI

<sup>127</sup> ICAS, SOCPA, WPK, DTTL, PWC

or review over that other practitioner. Given such challenges, a respondent<sup>128</sup> asked whether it would be more practical to allow the SAP to rely on the practitioner's statement on independence in its report, not only when the assurance work is used with respect to sustainability information from a value chain entity.

### *Independence Requirements*

203. Regarding the communication requirements in proposed paragraphs R5406.4 and R5406.5, a respondent also noted<sup>129</sup> that the requirements seemed to cover the same objective and were duplicative. A few respondents<sup>130</sup> suggested that the IIS in Part 5 require that another practitioner confirm its independence to the SAP in writing.

204. There were also suggestions that the IESBA clarify that:

- The independence considerations applicable when the firm plans to use the assurance work of another practitioner also apply to the related entities of the entity at which the other practitioner performed the assurance work.<sup>131</sup>
- If the group sustainability assurance client is a PIE, the firm needs to confirm another practitioner's independence with respect to the entity at which the assurance work was, or will be, performed in accordance with the PIE provisions, irrespective of whether or not that entity is a PIE.<sup>132</sup>

However, a few respondents<sup>133</sup> noted that if the entity at which another practitioner performs assurance work is not a PIE, it could be impractical to require that practitioner to confirm compliance with the PIE provisions since in many cases, the other practitioner might have already carried out the work.

205. It was also noted that there may be jurisdictions where SAPs who are not PAs would not be required to comply with the IESBA Code, but would be subject to other professional ethics standards. Therefore, a few respondents<sup>134</sup> suggested that the IIS in Part 5 allow another practitioner to confirm its independence in accordance with "other ethical requirements in relevant law, regulation or professional requirements related to assurance engagements that are at least as demanding as the IESBA Code."

206. It was also pointed out that if the work has already been carried out, the other practitioner might have complied with Part 4B of the Code or might not have been asked or been aware of the need to comply with the Code. In this regard, a few respondents<sup>135</sup> suggested that the IESBA consider granting a transition period for the other practitioner to meet the independence requirements under Part 5.

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<sup>128</sup> MIA (Malaysia)

<sup>129</sup> SGX

<sup>130</sup> CEAOB, ESMA, IAASA, IFIAR

<sup>131</sup> IRBA, NZAASB, ICAS, PWC

<sup>132</sup> NZAASB, ICAS, JICPA

<sup>133</sup> Assirevi, BDO

<sup>134</sup> APESB, MIA (Malaysia), Mazars, MU, PWC

<sup>135</sup> ISCA, KPMG

207. Some respondents<sup>136</sup> commented that if the SAP intends to use the work of another practitioner, the IESSA should also set out requirements for the SAP to consider another practitioner's skills and competencies, not only the other practitioner's independence.
208. Many respondents<sup>137</sup> suggested that the IIS in Part 5 address the consequences when a firm cannot confirm another practitioner's independence.

## **TF Views and Proposals**

### *Approach to Using the Assurance Work of Another Practitioner*

209. The TF considered the concerns raised regarding the concept of using the assurance work of another practitioner in whose work the firm cannot be involved. The TF notes that the concept and the planning for using such work are anchored in the assurance standards. The proposed ISSA 5000 allows the SAP to use the assurance work of another practitioner who is not part of the engagement team if certain conditions, including the practitioner's independence, are met. The IIS in Part 5 provides the framework for such independence.
210. Consequently, the TF continued close coordination with the IAASB TF on this matter. The TF proposes certain amendments to the determination of another practitioner and the description of direction, supervision, and review to address respondents' comments concerning clarity. The changes to the proposed ISSA 5000 clarify the objective of using the work of another practitioner and emphasize that such a practitioner does not perform assurance procedures for the purposes of the sustainability assurance engagement. (See proposed changes to the definition of another practitioner in the Glossary, and paragraphs 5400.12a, 5400.12b and 5406.1 in **Agenda Item 2-A**)
211. Concerning the issues raised on the communication between the SAP and another practitioner, the TF recognizes that there could be situations where two-way communication with another practitioner, who is not under the direction, supervision, or review of the SAP, is challenging. However, the Task Force reiterates that if the SAP intends to use the assurance work of another practitioner with respect to an entity that is within the operation control of the reporting entity, the SAP should be able to communicate with such practitioner, even if the SAP cannot be sufficiently and appropriately involved in that work. Therefore, the TF does not propose changes to this approach. Nevertheless, the TF agreed with respondents who raised that the requirements in paragraphs R5406.4 and R406.5 were duplicative. Accordingly, the TF proposes to delete paragraph R5406.4 in **Agenda Item 2-A**.

### *Independence Requirements*

212. Regarding the comments on the independence requirements in paragraph R5406.5, the TF notes that these requirements are principles-based. Consequently, the requirement that another practitioner needs to be independent in accordance with Part 5 does not necessarily mean that the other practitioner is subject to the provisions in Part 5. In line with the overarching principles-based approach of the Code, the requirement regarding another practitioner's independence in accordance with Part 5 can be met if that practitioner is in compliance with other independence requirements in relevant laws, regulations or professional standards related to assurance engagements that are at least as demanding as the IIS in Part 5.

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<sup>136</sup> CPAA, EFAA, ICAEW, ICPAU, IFAC, PAFA, PKF

<sup>137</sup> CEAOB, IAASA, IFIAR, NZAASB, CAANZ, CAI, CPAA, CPAC, ICAS, IFAC, AE, IWP, EY, RSM

213. Concerning the suggestions to require confirmation of independence from another practitioner in writing, the TF notes that the Code is generally<sup>138</sup> not prescriptive regarding the manner and form of communication. The communication between the SAP and another practitioner might take place in a way that best suits the circumstances of the engagement, most likely in writing. However, the TF does not believe that the IIS in Part 5 should explicitly require written communication in such instances.
214. The TF considered the comments regarding the application of the independence requirements to the related entities of the group component at which the assurance work is performed by another practitioner and the application of the PIE provisions if the client is a PIE. The TF reiterates that the objective of the proposals when the firm intends to use the assurance work at another practitioner with respect to sustainability information from an entity within the group (operational control) is to achieve consistency with the proposals applicable to component practitioners. Therefore, the TF believes it is necessary to require the same independence throughout the group entities or other group components under the reporting entity's operational control, irrespective of whether the SAP can be sufficiently involved in the assurance work of the other practitioner. The TF recommends that the IESBA commission implementation support guidance on the matter in FAQs and other non-authoritative guidance.
215. The TF agreed to provide application material in Section 5406 explaining the consequences if the SAP cannot confirm another practitioner's independence. As explained in the ED, it is not within the remit of the Code to state that the SAP cannot use the practitioner's work, as this is a matter to be determined in the assurance standards. Accordingly, the proposed application material explains that if the SAP is unable to obtain confirmation regarding another practitioner's independence, the SAP cannot conclude that the other practitioner is independent in accordance with the requirements of Part 5. In such circumstances, the applicable assurance standard might address the implications for the sustainability assurance engagement. (See paragraphs 5406.5 A1 and 5406.7 A1 in **Agenda Item 2-A**)
216. The TF also proposes transitional provisions in the case of early adoption of the IIS in Part 5. Thus, the TF proposes that the SAP be allowed to accept confirmation of the independence of another practitioner for the purposes of the sustainability assurance engagement even if the other practitioner is independent in accordance with Part 4B. However, the TF believes that the proposed effective date should provide sufficient time for the SAP to plan the engagement and obtain evidence with respect to the sustainability information of group components. Therefore, these transitional provisions apply in the case of early adoption only. The TF proposes the same transitional provision in the case of value chain components. (See Transitional Provisions in **Agenda Item 2-A**).
217. Regarding the comments that the IESSA should also require the SAP to confirm another practitioner's skills and competencies, the TF notes that the proposed ISSA 5000 already includes a requirement for the firm to evaluate whether the practitioner has the necessary competence and capabilities for the SAP's purposes. (See paragraph 50 of draft ISSA 5000 posted for approval in September 2024.) Therefore, the TF does not believe it is necessary to duplicate such a requirement in the IESSA.
218. Based on the restructuring of Section 5407 in the ED, as explained in the next subsection below, Section 5406 also sets out independence considerations applicable when the SAP uses the

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<sup>138</sup> Written communication is required only in the case of breaches to the independence provisions by the component practitioner, mainly because that communication is the basis for the group firm's communication with TCWG

assurance work of another practitioner performed at a value chain component. (See paragraphs R5406.5 to 5406.7 A1 in **Agenda Item 2-A.**)

*Using the Non-Assurance Work of Another Practitioner*

219. After the public consultation of ISSA 5000-ED, the IAASB TF determine to propose changes to the draft provisions in the IAASB's standard to address the situations where the SAP intends to use not only the assurance work but also any non-assurance work of another practitioner, such as certification reports developed in accordance with ISO standards. Based on the proposed ISSA 5000, the SAP can only use the work, either assurance or non-assurance, of another practitioner if the SAP complies with certain requirements, including with respect to the relevant ethical requirements. (See paragraph 50 of draft ISSA 5000 posted for approval in September 2024.)
220. As the IIS in Part 5 applies only to sustainability assurance engagements, the TF noted that it would not be practical and proportionate to require the SAP to confirm another practitioner's independence in accordance with the IIS in Part 5 if the SAP uses only non-assurance work performed by the other practitioner. In coordination with the IAASB TF, the TF has developed provisions in the ethics standards in Part 5 applicable when the SAP intends to use the non-assurance work of another practitioner. The proposed new paragraphs in Section 5300 are in line with the extant Code's provisions in Section 220 applicable when the PA relies on the work of others. The TF proposes a requirement for the SAP to exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfil the SAP's responsibilities to comply with the fundamental principles of integrity, objectivity and professional competence and due care. The proposed guidance also sets out examples of factors to consider in determining the appropriate steps to take. (See paragraphs R5300. 11 to 5300.11 A2 in **Agenda Item 2-A.**)
221. The TF highlights that the draft ISSA 5000 includes application material to help the SAP determine whether an engagement performed by another practitioner is an assurance engagement. (See paragraph A126 in draft ISSA 5000 posted for approval in September 2024.)
222. The TF believes that the proposed requirement provides a proportionate approach that builds on the application of the conceptual framework without creating a significant burden on the SAP who intends to use the non-assurance work of another practitioner. Accordingly, the TF is of the view that this proposal does not represent a significant change from the ED.

**Matter for IESBA Consideration**

9. IESBA members are asked to share views on the TF's proposals regarding using the work of another practitioner, including:
- The changes to the definition of another practitioner to ensure alignment to the definition of the same term in the proposed ISSA 5000.
  - The proposed requirement and application material in paragraphs R5300.11 to 5300.11 A2 which provide relevant ethical requirements when the SAP intends to use the non-assurance work of another practitioner.
  - The transitional provisions in the case of early adoption of the IESSA.

## I. Independence Considerations Applicable to Assurance Work at a Value Chain Entity

### **Question 12**

***Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements?***

### **Question 13**

***Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity?***

### **Question 14**

***Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:***

- (a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm’s independence?***
- (b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide?***

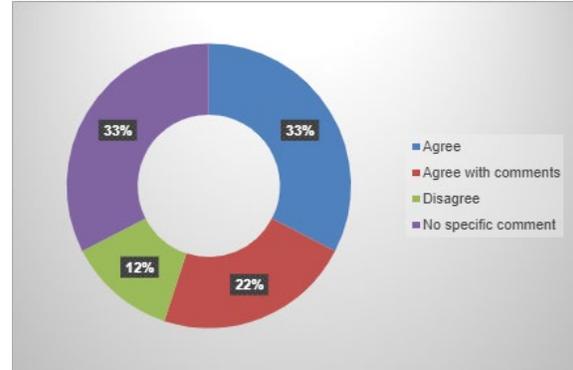
223. Given that the determination of entities within the value chain is based on the reporting frameworks, the ED proposed that the Code define a client’s value chain by reference to the applicable reporting framework. However, the ED set out that the value chain does not include components as defined for the purposes of a group sustainability assurance engagement. Based on the proposed definition of group sustainability assurance client, the ED clarified that value chain entities are not part of the client’s organizational boundary and are not under its control. Therefore, the proposed provisions in Part 5 relevant to group sustainability assurance clients did not apply to them.
224. The ED included new provisions in Sections 5407 and 5700 in the proposed IESSA to explicitly address the independence considerations applicable when assurance work is carried out at, or with respect to, a value chain entity for the purposes of a sustainability assurance engagement. The ED addressed the circumstances where the firm:
- (a) Performs the assurance work at the value chain entity;
  - (b) Uses the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or
  - (c) Performs the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity.
225. The ED also recognized that where a firm uses the work of a sustainability assurance practitioner who separately performs the assurance work at a value chain entity, the firm still has ultimate responsibility for the sustainability assurance engagement and the opinion on the sustainability information. Therefore, the ED proposed that Part 5 recognize that interests, relationships or

circumstances between the firm, a network firm or a member of the sustainability assurance team and that value chain entity might create threats to the firm’s independence. Therefore, the ED proposed to require the firm to apply the “knows or has a reason to believe” principle to identify, evaluate and address such threats.

**Overview of Responses**

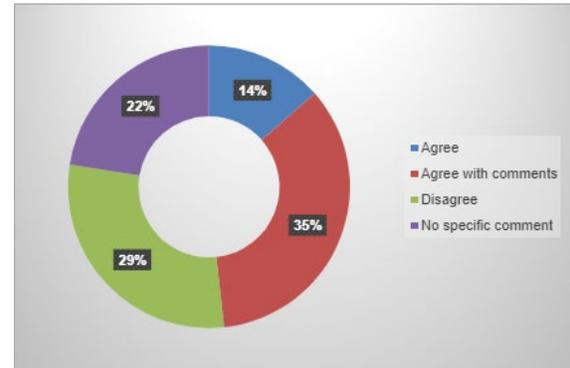
226. Responses to Question 12 were as follows (see separate NVivo report in **Agenda Item 2-C.12** for details):

- 29 respondents agreed – 33 %;
- 20 respondents agreed with comments – 22 %;
- 11 respondents did not agree – 12%; and
- 29 respondents did not have a specific response – 33%.



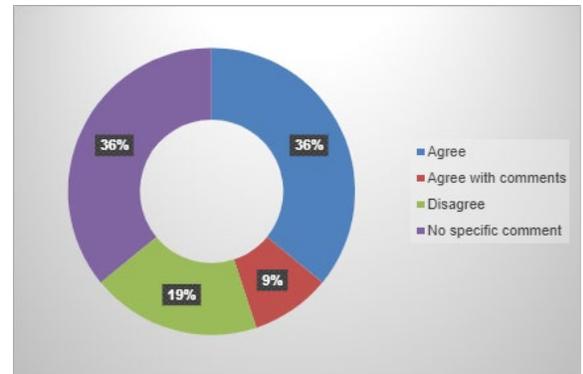
227. Responses to Question 13 were as follows (see separate NVivo report in **Agenda Item 2-C.13** for details):

- 12 respondents agreed – 13 %;
- 31 respondents agreed with comments – 35%;
- 26 respondents did not agree – 29%; and
- 20 respondents did not have a specific response – 22%.



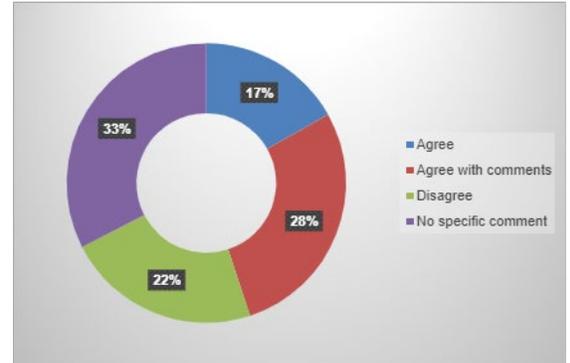
228. Responses to Question 14a were as follows (see separate NVivo report in **Agenda Item 2-C.14** for details):

- 32 respondents agreed – 36%;
- 8 respondents agreed with comments – 9%;
- 17 respondents did not agree – 19%; and
- 32 respondents did not have a specific response – 36%.



229. Responses to Question 14b were as follows (see separate NVivo report in **Agenda Item 2-C.14** for details):

- 15 respondents agreed – 17%;
- 25 respondents agreed with comments – 28%;
- 20 respondents did not agree – 22%; and
- 29 respondents did not have a specific response – 33%.



## Respondents' Comments

### *Determination of a Value Chain Entity*

230. There was substantial support for linking the definition of a value chain to the applicable reporting framework and not treating them as components for the purposes of the sustainability assurance engagements. Nevertheless, some respondents<sup>139</sup> had concerns that the determination of the value chain in the various reporting frameworks could create possible ambiguity and diversity in the performance of assurance engagements. IOSCO suggested that the IESBA promote consistent application of the various requirements in Part 5 by considering a definition of “value chain” that is anchored in the concept of information originating outside of the entity’s organizational boundary.

231. A few respondents<sup>140</sup> commented that the proposed definition of value chain refers to the concept of materiality which is an audit-related concept. They felt that the determination of materiality might create challenges for non-PAs, so they suggested leaving that out of the definition.

### *Independence Considerations*

#### Practicality and Operability of the Proposals

232. Several respondents<sup>141</sup> raised comments regarding the complexity of the proposed independence considerations applicable to value chain entities. They noted that SAPs who are not PAs might not be familiar with the concept of independence in accordance with the Code’s provisions; therefore, the application of the provisions with respect to value chain entities could create a significant barrier to them. There were suggestions<sup>142</sup> for issuing guidance to support implementation, with detailed diagrams and further examples.

233. Many respondents<sup>143</sup> also pointed out the difficulty related to identifying and obtaining information regarding entities within the value chain that are outside the reporting entity’s organizational boundary. In addition, they noted that the sheer volume of value chain entities at some clients,

<sup>139</sup> IOSCO, CAANZ, SOCPA, AFAANZ, NSU, NASBA, DTTL

<sup>140</sup> ACCA, CPAA, IFAC, PAFA, ICAEW

<sup>141</sup> IOSCO, MU, RSM, IRBA, DIR, NZAuASB, CAI, CAANZ, CNCC, HKICPA, ICAEW, ICPAU, SAICA, Assirevi, BDO, DTTL, KPMG, Mazars, PKF, PP, KPMG

<sup>142</sup> SAAJ, ICFAO, CPAC, KICPA, ICAEW, RSM

<sup>143</sup> ACRA, IRBA, ICAS, ISCA, MIA (Malaysia), CAI, JICPA, KPMG, PKF, APESB, ACCA, ISCA, CNCC, MIA (Malaysia), Assirevi, DTTL, KPMG

including through potentially multiple layers of suppliers, could make it impossible to apply the proposals in practice.

234. It was also raised that the overly prescriptive independence requirements with respect to value chain entities could have unintended consequences in this undeveloped market. Given the level of advisory work currently being completed at entities, some respondents<sup>144</sup> had concerns about the scarcity of sustainability expertise in the market and that the provision of NAS within the value chain could exclude SAPs from providing sustainability assurance.
235. There were some comments on the interoperability of the proposals with the ISSA 5000-ED. Some respondents<sup>145</sup> raised that the ISSA 5000-ED did not clarify the assurance procedures at, or with respect to, value chain entities. They suggested that the IESBA and IAASB closely coordinate on that matter and address the issue holistically.
236. Given such practical challenges and the early stage in the development of the mandatory sustainability assurance market, there were views that it was too early to establish independence requirements with respect to value chain entities. A few respondents<sup>146</sup> suggested that applying the conceptual framework and confirmation around conflicts of interest and self-review threats might be a more practical approach. Others<sup>147</sup> felt that Section 5407 should be deleted from the proposal and, at this stage, the IESBA should only provide guidance outside of the Code with respect to value chain entities.

#### The Firm Performing Assurance Work at a Value Chain Entity

237. Some respondents<sup>148</sup> commented that the IESBA should clarify what “perform the assurance work at the value chain entity” actually means in the proposed independence requirements in order to avoid any misunderstanding that this refers to a physical presence of the SAP at the premises of the value chain entities.
238. A few respondents<sup>149</sup> noted that instead of focusing on independence with respect to the value chain entity where assurance work was performed, the IESSA should focus on obtaining and evaluating evidence in relation to value chain entities, and the reliability of such evidence.
239. In relation to the proposed requirement in paragraph R5407.5, a few respondents<sup>150</sup> were of the view that it was not a realistic or practical scenario that the SAP would perform assurance work at a value chain entity. They pointed out that in such circumstances the value chain entity would need to “open itself up” to the numerous different SAPs, which have been engaged to obtain assurance by client entities further along that value chain and to which the value chain entity provides goods or services. They felt it would not be possible or likely to get access to complete work unless the SAP was already the assurance provider to the value chain entity.

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<sup>144</sup> ACRA, IRBA, ISCA, DTTL, NZAuASB, IFAC, PAFA, BDO

<sup>145</sup> SAAJ, JICPA, KICPA, Assirevi, GTIL, SAAJ, HKICPA, AICPA, Assirevi, GTIL, EY

<sup>146</sup> ACRA, ICAS, CNCC, SAICAGAA, PKF, CAI, CNCC, IDW

<sup>147</sup> MIA (Malaysia), NZAuASB, JICPA, AICPA, CAANZ, GTIL

<sup>148</sup> AE, ICAS WPK, IWP, EY, CNCC, HKICPA

<sup>149</sup> ICAEW, Mazars, PWC

<sup>150</sup> CPAA, EFAA, IFAC, ICAEW, PAFA, Mazars

240. There were a few concerns<sup>151</sup> regarding requiring the sustainability assurance team to be independent of not only the value chain entity but also its relevant related entities. Respondents believed it would be quite onerous and may, in practice, lead SAPs not to seek to perform work at the value chain entity, which could eventually impair the quality of the assurance engagement.

#### Using the Assurance Work of Another Practitioner Performed at a Value Chain Entity

241. Respondents to the ED raised similar comments on paragraph R5407.5 in the ED as those regarding the proposed Section 5406. A few respondents<sup>152</sup> pointed out that other practitioners may not understand independence requirements or be able to confirm independence. It was questioned<sup>153</sup> how the SAP should treat independence reports that do not confirm independence in accordance with Part 5 of the Code explicitly. In that regard, there were suggestions<sup>154</sup> for clarifying the consequences if the firm cannot confirm full compliance of another practitioner with Part 5 or the other practitioner refuses to provide information on its independence.
242. A few respondents<sup>155</sup> suggested that the IESBA provide further guidance on the content of the independence report and what information is necessary for the SAP to be able to use the assurance work. In addition, they suggested that another practitioner should be requested to confirm its independence in writing.
243. A few respondents<sup>156</sup> suggested that the IESBA consider including transitional provisions when the other practitioner could not confirm its independence in accordance with Part 5, but only in accordance with the extant Part 4B.

#### Performing Assurance Work Based on Client's Information

244. Some respondents<sup>157</sup> did not support that the proposed paragraph R5407.6 in the ED only required independence from the client but not from the value chain entity. Others<sup>158</sup> pointed out that the requirement is duplicative as it is already required in the IIS in Part 5 for the SAP to be independent of the sustainability assurance client.

#### *Application of the “Knows or Has Reason to Believe” Principle*

245. Many respondents agreed that certain interests, relationships, or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm's independence if the firm uses the assurance work of another practitioner. However, there were a few respondents who argued<sup>159</sup> whether there were any actual threats created by relationships between the firm and the value chain entities in such circumstances. A few

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<sup>151</sup> AE, HKICPA, IDW, Assirevi

<sup>152</sup> EFAA, IFAC, ICAEW

<sup>153</sup> ICAS, MIA (Malaysia), EY, PWC

<sup>154</sup> EY, PWC, CPAA, ICAS

<sup>155</sup> CEAOB, ESMA, IAASA, IFIAR

<sup>156</sup> ISCA, KPMG

<sup>157</sup> UKFRC, APESB, NZAuASB, CPAA, EFAA, ESMA, ICAS, ICAEW, IFAC, PAFA, IBA

<sup>158</sup> KPMG, PWC

<sup>159</sup> IRBA, AICPA, IWP, KPMG

respondents<sup>160</sup> believed that even if there might be any threats, those might be trivial or inconsequential. It was also questioned<sup>161</sup> how this situation was different from obtaining information from service organizations in the case of audit engagements where there are no reference to such perceived threats.

246. Some respondents<sup>162</sup> had concerns regarding the application and compliance with the proposed requirement in paragraph R5700.4 of the ED. They noted that even if there was no monitoring obligation, it would be onerous and costly to implement the proposals. They pointed out that since the value chain could include a wide range of entities such as customers, suppliers, and service providers, it would be difficult to determine and maintain independence from all entities that are not within the organizational boundary.
247. It was also noted<sup>163</sup> that having another independent practitioner carry out the assurance work should sufficiently safeguard the SAP's objectivity.
248. There were some concerns<sup>164</sup> that in this immature market, the proposal may lead to a limited number of experienced practitioners if, for example, the SAP cannot carry out the engagement due to a relationship with the client's value chain.
249. Several respondents<sup>165</sup> commented that if the IESBA decides to include the proposed requirement in the final standard, the IESBA should elaborate more on the "knows, or reason to believe" principle and provide examples of the specific threats and relationships.
250. Many respondents<sup>166</sup> felt that the structure of the proposals could be simplified if the IESBA cross-refers or merges Sections 5407 and 5700.

## **TF Views and Proposals**

### *Determination of a Value Chain Entity*

251. Regarding the concerns raised on the risk of different determinations of the value chain in the reporting frameworks, the TF believes that the introduction of the concept of "value chain components" based on the concept of operational control– as explained in paragraph 191 above – will help address some of the concerns regarding inconsistent application. Although the TF's revised proposals set out independence considerations applicable to assurance work at a value chain component, the TF proposes keeping the definition of value chain in the Glossary as it serves as a basis for the determination of value chain components. In addition, the ethics standards in Part 5 will continue to refer to value chain entities.

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<sup>160</sup> AICPA, HKICPA

<sup>161</sup> PWC, KPMG

<sup>162</sup> IRBA, CPBS, AE, IWP, MIA (Malaysia), Assirevi, PP

<sup>163</sup> AICPA, CNCC, AE, Assirevi, DTTL, EY, PWC, KPMG

<sup>164</sup> IRBA, ACCA, CBPS, PWC, CBPS, MIA (Malaysia)

<sup>165</sup> CEAOB, IAASA, IFIAR, SAAJ, NZAuASB, CNCC, CPBS, MIA (Malta), SAICA, WPK, MIA (Malaysia), CAI, AE, HKICPA, JAB, BDO, Mazars, PWC, APESB, Assirevi, BDO, SGX, BOA, CPAA, CPAC, ICAEW, SOCPA, PKF, RSM, Mazars, NSU

<sup>166</sup> IFAC, NZAuASB, IDW, IFAC, PAFA, CAANZ, ICAS, WPK, MIA (Malaysia), PWC, RSM, EY, CFAANZ, UKFRC, CAI, CPAA, ICAS, JICPA

252. In relation to the definition of value chain, the TF notes that disclosure of sustainability information with respect to the value chain and assurance over such information are matters for the applicable reporting and assurance frameworks to address. The IIS in Part 5 are aimed at establishing independence considerations when the SAP performs assurance work at a value chain component or uses the work of another practitioner performed at a value chain component. However, the TF notes that the IESBA cannot determine the reporting boundary for the sustainability assurance engagement by defining the value chain of a reporting entity in the Code. Therefore, the TF does not propose any changes to the approach to defining value chain.
253. Regarding the comments on the reference to materiality in the definition, the TF accepted those comments and proposes to delete that reference in the definition. (See Glossary in Agenda Item 2-A.).

### *Independence Considerations*

#### Practicality and Operability of the Proposals

254. The TF worked closely with the IAASB TF while developing the proposed changes to the structure of Sections 5405, 5406, 5407 and 5700 in order to respond to the comments on complexity. Based on the proposed new approach to value chain components, the TF proposes the restructuring as explained in paragraph 192 above. As a result of this restructuring, the TF proposes to:
- (a) Integrate the provisions in Section 5407 that apply to value chain entities into the revised Sections 5405 and 5406;
  - (b) Include provisions in revised Section 5405 applicable when a firm or a component practitioner performs assurance work at a value chain component; and
  - (c) Include provisions in revised Section 5406 applicable when a firm uses the assurance work of another practitioner at a value chain component.
255. The TF believes that the new approach to components and the introduction of the concept of value chain component will further clarify that the IESBA did not intend to extend the independence considerations to the entire value chain. In line with the definitions of a value chain and value chain component, the IIS in Part 5 focus only on a value chain entity, or business unit, function or business activity (or some combination thereof), whose sustainability information is included in the client's sustainability information and the SAP determines assurance work needs to be performed on that value chain information.
256. Regarding the comments on the potential difficulties related to obtaining information from a value chain entity, the TF notes that the draft ISSA 5000 already requires the SAP to determine the sustainability information on which assurance work will be performed and the source of that information when planning the engagement. In addition, the firm also needs to determine the resources needed to perform the engagement, including the involvement of component practitioner(s) and whether to obtain evidence from the work performed by another practitioner. (See paragraph 95 in draft ISSA 5000 posted for approval in September 2024.) Accordingly, the proposed ISSA 5000 already requires the SAP to identify the value chain entities that are components and determine if the SAP needs to perform assurance work at the component or obtain evidence in other ways.

257. The TF believes that the amendments to the proposed ISSA 5000 and the coordination between the IAASB and IESBA to align the two sets of standards and simplify the approach to value chain considerations will help to facilitate the implementation of the proposed provisions in practice. Furthermore, the TF recommends that the IESBA commission IESBA Staff to develop FAQs or other non-authoritative guidance regarding the independence provisions applicable to assurance work at a value chain component.

#### The Firm Performing Assurance Work at a Value Chain Entity

258. As mentioned in paragraph 256 above, the proposed ISSA 5000 requires the SAP to determine the components at which assurance work will be performed. The requirements in the IIS in Part 5 are aligned with the approach proposed for the planning of the engagement in ISSA 5000, as well as with the approach currently applicable to group audit engagements as set out in ISA 600 (Revised) and Part 4A of the Code. Based on this approach, it is not necessary that the SAP be physically present at the location of the value chain component to perform the assurance work. The TF recommends that the IESBA commission IESBA Staff to develop an FAQ on that matter. The IESBA and IAASB TFs agreed to propose that both Boards issue guidance on what activities “assurance work” is meant to cover for purposes of the IESSA and ISSA 5000.
259. In line with the proposals in ISSA 5000 regarding the planning for the engagement, the TF recognizes that there might be several options for a SAP to obtain information/evidence regarding sustainability information from the value chain. One of the options is that the SAP performs the assurance work at the value chain component, and in those circumstances, the TF believes that it is in the public interest that the SAP be independent of that value chain component. If the SAP determines to use other evidence with respect to the sustainability information from the value chain component, such as using the work performed by another practitioner, the IIS in Part 5 do not require the SAP to be independent of such value chain component but sets out other relevant ethical requirements for the SAP.
260. Therefore, the TF does not propose significant changes to the independence requirements applicable when the firm, a network firm, or a component practitioner performs the assurance work at a value chain component. (See paragraphs R405.5a, R5405.8a, R5405.13a, and 5405.17A1 in **Agenda Item 2-A**)
261. Regarding the comments on the independence of the related entities of a value chain entity, the TF notes that the independence requirements in the ED and the updated proposals only require independence from the value chain component and not any of related entities. (See paragraphs R405.5a, R5405.8a, R5405.13a, R5406.6 and R5406.7 in **Agenda Item 2-A.**)

#### Using the Assurance Work of Another Practitioner Performed at a Value Chain Entity

262. The TF does not propose significant changes to the independence considerations applicable when the SAP intends to use the assurance work of another practitioner performed at a value chain component. The TF notes that respondents generally agreed that there might be practical challenges related to obtaining evidence with respect to sustainability information from a value chain component and they supported the proportionate approach that allows the SAP to rely on a statement of independence in another practitioner’s report. If another practitioner has not provided a statement of independence in relation to the assurance work performed at the value chain component, the SAP needs to request the other practitioner to confirm its independence. (See paragraphs R5406.6 to R5406.7 in **Agenda Item 2-A.**)

263. Regarding the other comments raised related to using the assurance work of another practitioner, the TF's relevant responses with respect to using the assurance work performed at a group component also apply. Please refer to paragraphs 212, 213, 215 and 216 above.

#### Performing Assurance Work Based on Information Provided by the Sustainability Assurance Client

264. The TF believes that if the SAP intends to perform assurance procedures on information from a value chain component based on the information provided by the client without carrying out assurance work at such value chain component, it is not necessary to require the SAP to be independent of the value chain entity. The reliability of the client's information is already subject to assurance through the client's internal control. Therefore, the TF believes it is sufficient from a public interest point of view to require the SAP to be independent of the client only.
265. The TF considered the comments raising that the proposed requirement in R5407.6 of the ED is duplicative since other sections in the IIS in Part 5 already ensure the SAP's independence from the sustainability assurance client. Accordingly, the TF proposes to delete the requirement in paragraph R5407.6.

#### *Application of the "Knows or Has Reason to Believe" Principle*

266. The TF considered the potential practical challenges raised by respondents with respect to the application of the "knows or has reason to believe" principle regarding any interests, relationships, or circumstances between the SAP and the value chain component if the SAP uses the assurance work of another practitioner performed at the value chain component. Given the proposed updated approach to value chain components in draft ISSA 5000 and IIS in Part 5, the TF believes there are sufficient guardrails around the SAP's independence when it intends to perform assurance work on sustainability information from value chain component. Therefore, the Task Force proposes to delete Section 5700 of the ED.
267. Although the IIS in Part 5 would not explicitly require the application of the "knows or has reason to believe" principle, the TF notes that the SAP is still required to apply the conceptual framework in relation to any interests, relationships, or circumstances between the SAP and the value chain component that might create threats to independence, even if the SAP does not perform assurance work at the value chain component, but uses the work of another practitioner.

#### **Matter for IESBA Consideration**

10. IESBA members are asked to share views on the TF's proposals regarding assurance work at a value chain component, including:
- The proposed refinement to the definition of value chain.
  - The proposed new structure for provisions applicable to value chain components (i.e., integration of the provisions from Section 5407 into Sections 5405 and 5406).
  - The independence requirements applicable when the firm, a network firm, or a component practitioner performs assurance work at a value chain component in paragraphs R405.5a, R5405.8a, R5405.13a, and 5405.17A1.

- The independence requirements applicable when the SAP uses the assurance work of another practitioner performed at a value chain component in paragraphs R5406.6 to 5406.7 A.
- The deletion of Section 5700 in the ED.

## J. Providing Non-Assurance Services to Sustainability Assurance Clients

### **Question 15**

***The International Independence Standards in Part 5 set out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client. Do you agree with the provisions in Section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG)?***

### **Question 16**

***Subsections 5601 to 5610 address specific types of NAS.***

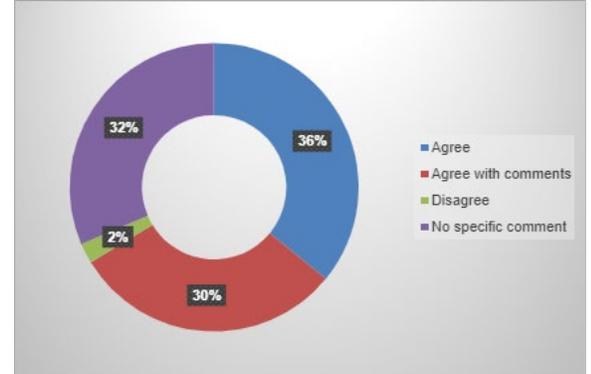
- (a) Do you agree with the coverage of such services and the provisions in the Subsections?***
- (b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?***

268. Taking an equivalent approach to the independence standards for audit engagements, the ED set out that providing NAS to a sustainability assurance client might create threats to compliance with the fundamental principles and to independence. The provision of NAS to an audit client focuses on the impact of such services on the financial statements. Likewise, the IESBA believed that in the context of a sustainability assurance engagement, the provision of NAS may impact the sustainability information on which the firm expresses an opinion. Consequently, the IESBA agreed that general requirements and application material set out in Section 600 of Part 4A for audit engagements (such as the prohibition from assuming management responsibility, the “self-review threat prohibition,” and communication with TCWG) are also applicable when the firm provides NAS to a sustainability assurance client.
269. Recognizing that NAS may be provided by different types of practitioners (including smaller “boutique” firms to large audit firms and their networks), the IESBA agreed to address types of NAS similar to those in relation to the audit, tailored with the additional examples and supplemented with a few additional types of NAS based on consultation with the SRG. This approach supports achieving equivalence between the independence provisions applicable to audit and those applicable to sustainability assurance engagements.

## Overview of Responses

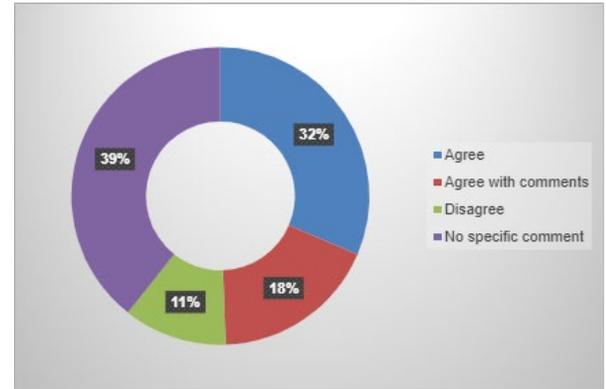
270. Responses to Question 15 were as follows (see separate NVivo report in **Agenda Item 2-C.15** for details):

- 32 respondents agreed – 36%;
- 27 respondents agreed with comments – 30%;
- 2 respondents did not agree – 2%; and
- 22 respondents did not have a specific response – 25%.



271. Responses to Question 16a were as follows (see separate NVivo report in **Agenda Item 2-C.16** for details):

- 28 respondents agreed – 31%;
- 16 respondents agreed with comments – 18%;
- 10 respondents did not agree – 11%; and
- 35 respondents did not have a specific response – 39%.



## Respondents' Comments

272. A substantial body of respondents commenting on these questions were in agreement with the proposed approach.

### General Comments

273. Some respondents<sup>167</sup> noted that sustainability is an emerging area and the NAS performed for sustainability assurance clients are also evolving. They argued that mirroring the requirements from Section 600 in Part 4A was not fitting as those were developed for the audit of financial statements and do not necessarily capture all the types of services that SAPs often provide to their clients. Furthermore, they had concerns that the specific types of NAS in the ED were not sufficiently adapted to sustainability matters (e.g., tax services) and the examples were not as relevant to sustainability information. Considering the undeveloped market, a few respondents<sup>168</sup> were of the view that IESBA should consider removing subsections 5601 to 5610 and develop a principles-based Section 5600 at this stage. They felt that the IESBA might be better positioned to add coverage of specific services over time.

274. Some respondents<sup>169</sup> noted that the requirements and application material related to the provision of NAS might be new for SAPs who are non-PAs. They believed this could lead to a risk of inconsistent interpretation across practitioners. Likewise, they noted that the engagements specific to

<sup>167</sup> BICA, CNCC-CNOEC, MIA (Malaysia), SAICA, AE, CPAA, ICAS, BDO, DTTL, GTIL, RSM

<sup>168</sup> NZAuASB, AE, CNCC-CNOEC, IWP

<sup>169</sup> CEAOB, IAASA, IFIAR, CBPS, IDW

sustainability, such as advisory services, could add an extra layer of complexity when identifying, evaluating, and addressing threats to independence, even for PAs who are familiar with the Code. They suggested providing further guidance, including examples of what may pose a threat to independence in the context of sustainability assurance engagements.

275. A few respondents<sup>170</sup> pointed out clients' increased demand for support from SAPs, especially in jurisdictions where assurance has just been mandated. They were of the view that the availability of SAPs should not be inadvertently limited by overly stringent independence requirements.

#### *Self-Review Threats*

276. Some respondents<sup>171</sup> referred to potential complexity around the proposed approach to the determination of self-review threats. They had concerns that the relevant requirements and application material, and prohibitions on specific NAS, would be subject to various interpretations and judgments by practitioners. They suggested that the IESBA consider limiting addressing the provision of these services only to audits of PIEs given the particular public interest in such entities. To promote the consistent application of the guidance regarding the determination of self-review threats, a few respondents<sup>172</sup> emphasized the importance of issuing non-authoritative guidance on this matter to help educate users of the Code who are not familiar with the drafting conventions of the IESBA, especially the interpretation of "might create a threat" in the proposed paragraph R5400.15 in the ED.
277. There were a few requests<sup>173</sup> for clarification regarding the determination of self-review threat when the firm expresses an opinion only on specific sustainability information. A few respondents questioned<sup>174</sup> whether the impact of NAS on the client's internal controls over sustainability reporting is linked to the sustainability information on which the firm will express an opinion. They suggested clarification of the IESBA's approach to the determination of self-review threat and the impact of the NAS in relation to sustainability information of the reporting entity that is not within the scope of the specific sustainability assurance engagement.

#### *Examples of NAS in Subsections to Section 5600*

278. Regarding the proposed Subsection 5604 on tax services, a few respondents<sup>175</sup> had concerns and raised questions about the relevance of such services to sustainability information. They suggested that the IESBA provide guidance regarding the potential impact of the provision of tax services on sustainability information through a few examples. A respondent<sup>176</sup> had a similar concern regarding corporate finance services in Subsection 5610 in the ED.
279. In relation to sustainability data and information services in Subsection 5601 in the ED, a few respondents<sup>177</sup> raised that there was no clear definition of such services, and it was therefore difficult

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<sup>170</sup> IDW, HKICPA, ICAEW

<sup>171</sup> CEAOB, ESMA, IAASA, IFIAR CPAA, IFAC

<sup>172</sup> NZAuASB, AICPA, CAANZ

<sup>173</sup> JICPA, DTTL, KPMG

<sup>174</sup> DTTL, KPMG

<sup>175</sup> NZAuASB, CAANZ, BDO, Mazars

<sup>176</sup> Mazars

<sup>177</sup> AICPA, MIA (Malaysia), BDO, PKF, PWC

to fully understand what ‘Sustainability Data and Information Services’ would cover. It was also pointed out<sup>178</sup> that ‘Sustainability Data and Information Services’, as presented in Subsection 5601, poses a potential hindrance to benchmarking services that would otherwise be permissible as a "data and information service."

280. Regarding “Valuation, Forecasting and Similar Services” in Subsection 5603, a few respondents<sup>179</sup> noted that the reference to such services is too restrictive and could be subject to different interpretations. It was suggested<sup>180</sup> that the IESBA consider referring to valuation services in a broader sense whose connection with non-financial and forward-looking information is more relevant.
281. Some respondents raised certain types of NAS, such as training and capacity building, restructuring services, technical certification engagements in line with ISO standards, and materiality assessment process, and asked that the IESBA clarify whether these services are permissible or prohibited based on the proposed IESSA.

#### *Transitional Provisions*

282. A few respondents<sup>181</sup> suggested that the IESBA explain the impact of the timing of NAS provided and the extent to which they might result in a prohibition due to a self-review threat. Some respondents also suggested<sup>182</sup> that the IESBA consider adding transitional provisions to clarify that the proposals are not applicable to NAS the SAP might be performing before the proposals come into effect.

### **TF Views and Proposals**

#### *General Comments*

283. In relation to the comments raised on the relevance of NAS provisions developed for audit engagements in Part 4A to sustainability assurance engagements, the TF notes that the stakeholders who participated in the global IESBA roundtables that informed the IESBA’s proposals generally agreed that ethics and independence standards for the audit and the sustainability assurance engagement should be equivalent. As explained in the EM, the provision of NAS to an audit client focuses on the impact of such services on the financial statements. However, in the context of a sustainability assurance engagement, the ED addressed the impact of the same types of services on the sustainability information on which the firm expresses an opinion. The TF believes that it would not be in line with the premise of equivalency if the IIS in Part 5 and Part 4A did not provide the same approach with respect to the provision of NAS to a client and did not address the same types of services, where applicable. The TF recognizes that certain types of services, e.g. tax services, are more likely to impact the financial statements; however, depending on the facts and circumstances, these NAS could also impact the sustainability information. Addressing a different list of NAS in Part 5 could give the impression that the provision of such services is permissible to a sustainability assurance client without regard to whether the service would affect the information reported on by the practitioner.

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<sup>178</sup> MIA (Malaysia), PWC

<sup>179</sup> DIRC, BDO

<sup>180</sup> DIRC

<sup>181</sup> NZAuASB, IDW, IFAC,

<sup>182</sup> DIR, CAANZ, HKICPA, JICPA

284. To emphasize the relevance of the specific types of NAS covered and their potential impact on sustainability information, the TF proposes some clarification in the *Introduction* to Section 5600. (See proposed paragraphs 5600.5a to 5600.6b in **Agenda Item 2-A.**)
285. Regarding the comments on the increased demand for advice and recommendations from the SAP to the client, the TF points out that there are no outright prohibitions on the provision of advice and recommendations. The IIS in Part 5 provide specific guidance to help users of the Code determine whether specific advice or recommendations might create a self-review threat. This guidance is in line with the provisions applicable to audits of financial statements. The Task Force recognizes that in the first years of mandated assurance engagements, clients might tend to turn to the SAP for advice. Nevertheless, the TF does not believe that it would be in the public interest to provide exemptions from the independence requirements in such cases.

#### *Self-Review Threat*

286. The TF recognizes the challenges of first-time application of the standards, especially the determination of self-review threat. Therefore, the TF recommends that the IESBA consider commissioning the development of FAQs and other non-authoritative guidance on that matter. The TF believes that this is a matter that will be better addressed as part of the implementation support and capacity-building activities of the IESBA.
287. Concerning the comments on the threats created when the NAS impacts sustainability information of the client that is not subject to the sustainability assurance engagement, the TF notes that the IESBA had already considered and addressed such a possibility when developing Subsections 5601 on Sustainability Data and Information Services. Unlike Subsection 601 on Accounting and Bookkeeping Services in Part 4A, the ED did not include a straight prohibition on the provision of sustainability data and information services to PIE clients. Instead, Section 5601 includes a prohibition only if the sustainability data and information services might affect the sustainability information *on which the firm expresses an opinion*. The TF does not propose any changes to the determination of the self-review threat in bullet (a) of paragraph R5600.15 as suggested by a few respondents. The TF believes that in bullet (a), it is not necessary to limit the reference to the effect of the NAS on the records underlying the sustainability information and the internal controls over sustainability reporting to the context of the sustainability information on which the firm expresses an opinion. The TF believes that if the NAS could impact the records underlying the sustainability information and the internal controls over sustainability reporting, that could create a more general risk that the SAP needs to consider when determining self-review threats. The TF welcomes the Board's views on this matter.

#### *Examples of NAS in Subsections to Section 5600*

288. The TF proposes a few clarifications and new examples regarding
- (a) Sustainability Information and Data Services in Subsection 5601,
  - (b) Tax Services in Subsection 5604; and
  - (c) Corporate Finance Services in Subsection 5610
- to further emphasize the relevance and the potential impact of such services on sustainability information.

289. In response to the comments raised, the TF proposes to change the reference to *Valuation, Forecasting and Similar Services* under Subsection 5603 to *Valuation and Advisory Services on Forward-Looking Information* to clarify the nature of such services that SAPs might provide to their sustainability assurance clients.
290. The TF discussed the suggestions for including additional types of NAS in the Subsections of 5600. The TF does not believe it is necessary to add further types of services in the IIS in Part 5 at this time. In addition, the Task Force notes that although the provision of some of the suggested services could also have an impact on the financial statements, Part 4A of the extant Code does not specifically address such services. The TF recommends that the IESBA Staff explain the implications of the provision of such NAS to the sustainability assurance client under the proposed IIS in Part 5 in FAQs.

#### *Transitional Provisions*

291. The TF notes that the proposals in the ED already provided general guidance on the determination and evaluation of the level of self-interest threats created by previous services provided to a PIE client (see paragraphs R5400.32 and 5400.32 A1 in **Agenda Item 2-A**). Additionally, the TF proposes transitional provisions for NAS engagements a firm or network firm has entered into with a sustainability assurance client before the effective date, The transitional provision is in line with the approach taken in the [Final Pronouncement on Revisions to the Non-Assurance Services Provisions in the Code](#) that was issued in April 2021.

#### **Matter for IESBA Consideration**

11. IESBA members are asked for feedback on the TF's views and proposals regarding the provision of NAS to sustainability assurance clients, including:
- Retaining the list of NAS in the IIS in Part 5.
  - The proposed guidance regarding the impact of NAS on sustainability information in paragraphs 5600.5a to 5600.6b.
  - The application material in paragraph 5600.6b explaining the application of Section 5600 and its Subsections to the provision of NAS to value chain components.
  - Whether there is a need to more narrowly limit the reference to the “records underlying the sustainability information” and the “internal controls over sustainability reporting” in paragraph R5600.15(a) to the sustainability information on which the firm will express an opinion.
  - The proposed clarifications in Subsections 5601, 5603, 5604 and 5610,
  - The transitional provisions for NAS engagements started before the effective date.

## K. Independence Matters When A Firm Performs Both the Audit and Sustainability Assurance Engagement

### Question 17

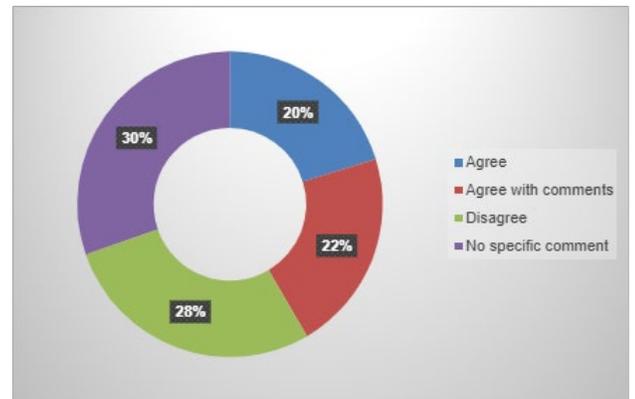
*Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client's financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)?*

292. The IIS in the ED also addressed certain independence matters and provided related guidance when the firm performs both the audit and the sustainability assurance engagement for the same client.
293. The EM explained that there might be threats to the firm's independence arising from concerns about the potential loss of the sustainability assurance engagement as a separate engagement (for example, if the firm were to express a modified audit opinion on the financial statements), which might impact the firm's objectivity. The EM also acknowledged that there might be a perception that the firm or network firm focuses on the sustainability assurance relationship to the detriment of the audit engagement, or vice versa. Consequently, if the auditor also provides sustainability assurance services to the client, the proposed revisions to Part 4A in the ED required the firm to disclose the fees for such services as non-audit fees and consider applying safeguards against threats created regarding the proportion of non-audit to audit fees.
294. In addition, the ED also addressed when the auditor later becomes the provider of sustainability assurance services (or vice versa) to the same client, with the extended period of the relationship (long association) potentially creating familiarity and self-interest threats to independence. The ED also proposed consequential amendments to Section 540 in Part 4A applicable to audit engagements.

### Overview of Responses

295. Responses to Question 17 were as follows (see separate NVivo report in **Agenda Item 2-C.17** for details):

- 18 respondents agreed – 20 %;
- 19 respondents agreed with comments – 21 %;
- 25 respondents did not agree – 28%; and
- 27 respondents did not have a specific response – 30%.



### Respondents' Comments

296. Respondents generally agreed on the need to address threats to independence arising when a firm provides audit and sustainability assurance services to the same client. However, several

respondents<sup>183</sup> had reservations about the proposed approach to fees for sustainability assurance and audit engagements from the same client.

### *Fees from Sustainability Assurance Client*

#### Fee Disclosure

297. Some respondents<sup>184</sup> argued that the fees for mandatory sustainability assurance engagements should not be disclosed and treated as fees for non-audit services. They suggested that the Code make a distinction between fees for sustainability assurance engagements and other non-audit services, such as fees for statutory services or audit-related fees, etc.
298. Regarding the proposal for public disclosure of fees from a sustainability assurance client, a few respondents noted<sup>185</sup> that, unlike audit fees, the disclosure by a client of fees for sustainability assurance engagements was not specifically required by law or regulation in many jurisdictions, unless the SAP is also the auditor. Given this regulatory context, the respondents pointed out that it would be challenging for firms to make the client disclose such fees since firms would need to make this disclosure in the absence of the client doing so. They suggested that the IESBA consider requiring a firm to “consider” publicly disclosing fees, or alternatively, qualifying the requirement by stating that such disclosure should occur in accordance with jurisdictional laws and practices.
299. A few respondents<sup>186</sup> commented that the proposed guidance regarding public disclosure of sustainability assurance fees was not sufficiently clear, especially when the firm receives fees for the audit and sustainability assurance engagement from the same client and the firm needs to apply the corresponding provisions from Part 4A, too.

#### Proportion of Fees

300. Many respondents<sup>187</sup> commented on the proposal regarding the proportion of fees and raised that treating fees for sustainability assurance engagements in the same manner as fees for services other than audit when determining the proportion of fees from the same client seemed inconsistent with the IESBA’s objective regarding equivalency of the standards with those for audit engagements. They believed that the relative proportion of audit fees and fees for sustainability assurance engagements would not create a threat since the IESBA envisaged the same independence standards applying to both types of assurance engagements. They were of the view that the proposal would create a barrier to the ultimate goal of integrated reporting. It was also raised<sup>188</sup> that the interconnectedness of the financial and sustainability information may even suggest a public interest benefit if the same firm performed both engagements. It was also observed that the proposal was not in line with the current trend toward integrated reporting.

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<sup>183</sup> IRBA, ACCA, AE, AICPA, CAANZ, CAI, CNCC-CNOEC, GAA, HKICPA, ICAEW, IDW, IFAC, IWP, KICPA, MIA (Malta), MIA (Malaysia), PAFA, WPK, Assirevi, DTTL, EY, GTIL, KPMG, Mazars, NRS

<sup>184</sup> ACRA, IRBA, CPAC, IDW, ISCA, JICPA, MIA (Malta), DTTL, GTIL

<sup>185</sup> CPAA, CAANZ, KICPA

<sup>186</sup> NZAuASB, AE, CBPS, CAANZ, DTTL, AFAANZ,

<sup>187</sup> CPAC, ICAS, ACCA, AICPA, CAANZ, CNCC-CNOEC, ICAEW, IDW, IFIAR, IWP, MIA (Malaysia), WPK, BDO, PWC, Assirevi, DTTL, EY, KPMG, Mazars

<sup>188</sup> IDW, IFIAR, PWC, NRS

301. Some respondents<sup>189</sup> pointed out that the recently approved EU framework on sustainability reporting and assurance in the Corporate Sustainability Reporting Directive (CSRD)<sup>190</sup> allows a SAP to disregard sustainability assurance engagements performed in accordance with the CSRD when calculating the total allowable value of non-audit services provided by that firm. There were suggestions<sup>191</sup> that the IESSA should require firms to consider and evaluate the level of threats arising from the relative proportion of fees for assurance services, including audit and sustainability assurance, to fees received for providing NAS.

#### *Long Association*

302. A MG member<sup>192</sup> suggested that the Code should focus on firm rotation instead of partner rotation, believing that rotation of firms may be a more appropriate approach than requiring a change of individuals. The respondent observed that changes to the individuals providing the service often result in the greatest risk for assurance engagements as efficiently securing quality is difficult without building upon existing knowledge. Another respondent<sup>193</sup> was of the view that the SAP moving to financial audit or vice versa could not create a familiarity threat as these are different disciplines with different counterparties at the client and under different standards.
303. A respondent<sup>194</sup> questioned how the firm should calculate the number of years served on the engagements if the individual participated previously in a sustainability assurance engagement that was not a sustainability assurance engagement within the scope of IIS in Part 5. There were a few requests<sup>195</sup> for clarification on whether the provisions in proposed Section 5540 were intended to apply retrospectively or prospectively from the proposed effective date.

### **TF Views and Proposals**

#### **Fee Disclosure**

304. In developing the proposals in the ED, the IESBA took into account that in practice, the audit and sustainability assurance engagement are generally separate engagements, and in jurisdictions that require the disclosure of fees, law or regulation generally mandates the disclosure of fees for the audit of the financial statements only. The TF reiterates its previous view that the disclosure of fees for the audit of the financial statements, separated from other fees, serves as a guardrail around auditor's independence. The TF notes that the extant Code is not prescriptive regarding the breakdown of the types of fees for non-audit services for public disclosure. The Code left the determination of the specific types of non-audit fees and the disclosure of such fees to the national laws and regulations in the specific jurisdictions. In line with that approach, the TF does not propose that the IIS in Part 5 set out whether the public disclosure of the non-audit fees should be broken

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<sup>189</sup> CAI, CNCC-CNOEC, IFAC, IWP, KICPA, IDW, DTTL, KPMG, Mazars

<sup>190</sup> 2022/2464/EU Directive

<sup>191</sup> IRBA, GAO, AE, CAANZ, CNCC-CNOEC, DTTL, KPMG

<sup>192</sup> IFIAR

<sup>193</sup> IWP

<sup>194</sup> DTTL

<sup>195</sup> ACCA, CAANZ, AE

down into fees for audit-related services, assurance, non-assurance services, or any other type of fee categories.

305. The TF also believes that the provisions regarding fee disclosure in Part 4A and proposed Part 5 are sufficiently clear. If the firm provides both the audit and the sustainability assurance engagement, it is the firm's responsibility to determine how to apply the corresponding provisions in different Parts of the Code. The TF suggests that relevant guidance to firms be provided in non-authoritative implementation support materials.
306. The TF also discussed the comments raised regarding the current regulatory context for the disclosure of the sustainability assurance fees by the client, and the potential challenges firms might face to meet the obligations for fee disclosure set out in the proposed IIS in Part 5. The TF, however, notes that there is a greater interest in stakeholders receiving the same information about a SAP's independence as in the case of the audit of the financial statements. Therefore, the TF is proposing retaining the equivalence between the approach regarding the fee disclosure with respect to audit fees and the approach with respect to sustainability assurance fees. In addition, the TF notes that if it is the auditor who performs the sustainability assurance engagement, the client is usually already required to disclose the fees paid for other assurance engagements.

#### Proportion of Fees

307. The TF notes that the proposed provisions regarding the threats created by a large proportion of fees did not include any fee cap or prohibitions. They only set out guidance for firms to identify and evaluate the level of threats created by a large proportion of fees for services other than audit to the audit fee while still supporting integrated reporting. Furthermore, if the firm provides an audit of integrated reporting as one engagement, the guidance that addresses the threats created by the proportion of fees from separate engagements does not apply. The fees for the audit of integrated reports will be treated as audit fees for the purposes of fee disclosure and determination of the proportion of fees.
308. Based on the comments received, the TF proposes new application material in Section 410 in Part 4A regarding the proportion of fees (see paragraph 410.11 A2a in **Agenda Item 2-A**). The application material clarifies that if national laws require the assurance of sustainability information and the auditor carries out such engagements, the auditor does not need to consider the amount of fees for such mandatory sustainability assurance engagements when determining the threats created by the proportion of fees for services other than audit to the audit fee. However, if the assurance of the sustainability information is only voluntary, the auditor is required to evaluate the level of the threats created by a large proportion of fees for such voluntary engagements to the audit fees. The TF notes that this approach is in line with the CSRD approach.

#### Long Association

309. The proposed provisions with respect to long association and partner rotation in the IIS in Part 5 are equivalent to the provisions in Part 4A, which does not address firm rotation. Therefore, the TF does not propose any changes to the current approach.
310. The TF notes that the premise underlying the proposal to treat key sustainability assurance leaders as being similar to key audit partners (and vice-versa) for the purposes of partner/leader rotation was the interconnectivity between the client's sustainability information and the financial statements. The TF believes that if an individual participates in the audit engagement and then continues to participate

in the sustainability assurance engagement at the same client, the cumulative time served could create a familiarity threat. Therefore, the TF reiterates its support for the approach in the ED to treat key sustainability assurance leaders and key audit partners similarly.

311. Likewise, the TF also believes that if a key sustainability assurance leader was previously involved in a sustainability assurance engagement that was not within the scope of the IIS in Part 5, the time served on that engagement could create a familiarity threat. Therefore, the time served on such engagements needs to be considered for the purposes of partner/leader rotation. However, the TF proposes that if a key sustainability assurance leader already served 6 or more cumulative years on the sustainability assurance engagement when it was not within the scope of the IIS in Part 5 before the firm undertakes the sustainability assurance engagement within the scope of this Part, as an exception, the individual may continue for a maximum of 2 more years if TCWG concur. (See paragraph R5540.10a in **Agenda Item 2-A**.) The proposal is in line with existing provisions applicable when the sustainability assurance client becomes a PIE client as set out in paragraph R5540.10 of the ED.
312. The TF also proposes to use the same concept in a transitional provision with respect to a sustainability assurance engagement that started before the effective date of the IIS in Part 5. (See the transitional provisions in **Agenda Item 2-A**.)

**Matter for IESBA Consideration**

12. IESBA members are asked to share views on the TF's proposals regarding the proportion of fees for the audit and sustainability assurance engagement, including the proposed conforming and consequential revisions in paragraph 410.11 A2a in Part 4A.
13. IESBA members are asked to share views on the TF's proposals regarding the long association of individuals participating in sustainability assurance engagements, including:
- The proposed paragraph in R5540.10a to specify the calculation of the time-on period if the individual participated in sustainability assurance engagements that were not within the scope of the IIS in Part 5; and
  - The proposed transitional provision.

**L. Other Matters**

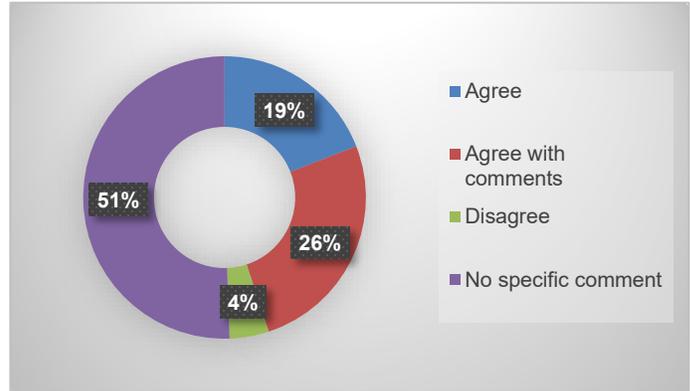
**Question 18**

***Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?***

### Overview of Responses

313. Responses to Question 18 were as follows (see separate NVivo report in **Agenda Item 2-C.18** for details):

- 17 respondents agreed – 19%;
- 23 respondents agreed with comments – 26%;
- 4 respondents did not agree – 4%; and
- 45 respondents did not have a specific response – 51%.



### Respondents' Comments

314. A substantial body of respondents who answered this question agreed that the additional guidance from a sustainability assurance perspective in the IESSA was adequate and clear. The following suggestions for further improvement were received:

- Adding an example of a potential safeguard in proposed paragraph 5300.8 A2 regarding the identification of a threat in relation to value chains in proposed paragraph 5300.7 A4a.<sup>196</sup>
- Adding more examples that are specific to sustainability assurance.<sup>197</sup>
- A suggestion for the IESBA to issue an implementation guide and case studies to assist with the adoption and implementation of the IESSA,<sup>198</sup> in particular regarding the following topics:
  - Examples of NOCLAR that should be reported by the auditor to the SAP and vice versa.<sup>199</sup>
  - The thought process behind the evaluation of threats and the determination for safeguards in Part 5.<sup>200</sup>

### Other Comments

315. One respondent<sup>201</sup> suggested the scope of the IIS should be explained upfront in Section 5100 in addition to Section 5400.

316. A few respondents<sup>202</sup> questioned whether Sections 5350 and 5380 are relevant for SAPs who are not PAs.

<sup>196</sup> APESB

<sup>197</sup> ACCA, AE, IWP, MIA (Malta), NBA

<sup>198</sup> UNCTAD ARP, NZAuASB, CPAC, HKICPA, ICAEW, IDW, SAICA, Moore, RSM

<sup>199</sup> NZAuASB

<sup>200</sup> ICAEW, HKICPA

<sup>201</sup> ICAS

<sup>202</sup> ICAS, IDW (on Question 19)

## TF Views and Proposals

317. The TF proposes that paragraph 5300.7 A4a be revised to clarify that the paragraph relates to the evaluation of a threat but not its identification. In addition, the TF considers that paragraph 5300.8 A2 includes appropriate examples of safeguards to deal with threats created by the value chain (such as having an appropriate reviewer) and that no revision is warranted.
318. Regarding other requests for guidance, the TF proposes those are considered as part of the development of the implementation support materials the IESBA might commission.

### *Other Comments*

319. The TF proposes to revise paragraph 5100.2a to include a cross-reference to the relevant paragraph in Section 5400 following the comment above on the scope of the IIS. See **Agenda Item 2-A**.
320. Regarding the comment on the relevance of Sections 5350 and 5380 for non-PAs, the TF notes that, due to the scope of the ethics provisions in Part 5, those sections might be relevant in case the SAP is providing professional services other than a sustainability assurance engagement to the sustainability assurance client that are tax services and/or involve custody of client assets. The TF therefore proposes no change.

### **Matter for IESBA Consideration**

14. IESBA members are asked to share views on the TF's proposals, including revisions to paragraphs 5300.7 A4a and 5100.2a.

### **Question 19**

***Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?***

## Overview of Responses

321. Thirty-six respondents (40%) had additional matters to raise, and fifty-three respondents (60%) did not have any other matters to raise (see separate NVivo report in **Agenda Item 2-C.19** for details).

## Respondents' Comments

322. Respondents who had additional comments raised, among others, the following topics:
- Regarding Section 5100:
    - Respondents suggested adding a reference to “high-quality, globally accepted” reporting and assurance standards<sup>203</sup> in proposed paragraph 5100.1.
    - One respondent<sup>204</sup> considered that Sections 5100 to 5390 should still apply to sustainability assurance engagements that are not within the scope of the IIS in Part 5.

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<sup>203</sup> CPAA

<sup>204</sup> PwC

- One respondent<sup>205</sup> considered that non-PAs should disclose appropriately if they choose not to adhere to the Code.
- One respondent<sup>206</sup> did not support the encouragement in paragraphs 5100.6 A3 and 5115.2 A1 for the SAP to consult with an appropriate regulatory or professional body when obtaining separate legal or other expert advice may be more appropriate.
- Regarding the principle of professional competence and due care, one respondent<sup>207</sup> considered that sustainability competence needs to consider and recognize the need for “contextual” awareness.
- One respondent<sup>208</sup> mentioned that paragraph 5120.14 A1 seems to be questioning the quality of ISQM 1.
- One respondent<sup>209</sup> made an editorial suggestion on paragraph 5300.7 A3(c) to improve readability.
- One respondent<sup>210</sup> felt that the relationship between Section 5380 and Subsection 5604 was unclear.

### **TF Views and Proposals**

323. Following respondents’ comments, the TF proposes to revise (see **Agenda Item 2-A**):

- Paragraph 5100.1 to include a reference to “high-quality, globally accepted” reporting and assurance standards and to broaden the illustrative list of users of sustainability information.
- Paragraph 5100.2(a) to clarify that Sections 5100 to 5390 apply to all sustainability assurance engagements, regardless of whether they are within the scope of the IIS in Part 5.
- Paragraphs 5100.6 A3 and 5115.2 A1 to mention that obtaining legal or other expert advice is another way for the SAP to obtain third party advice.
- Paragraph 5113.1 A2 to recognize the importance of the SAP being aware of the sustainability-related issues that may be specific to a certain geography.
- Paragraph 5120.14 A1 to clarify that ISQM 1 is an example of a quality management standard addressing firm culture.
- Paragraph 5300.7 A3(c) to improve its readability. The TF also proposes to change letters (a) and (b) to better align them with extant paragraph 300.7 A3 and to add a reference to sustainability assurance clients (depending on whether the IIS in Part 5 apply to the sustainability assurance engagement because that is what determines equivalence with the audit client). As a result, the TF proposes to amend extant paragraph 300.7 A3 to reflect the changes in Part 5.

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<sup>205</sup> BDO

<sup>206</sup> CAI

<sup>207</sup> NZAuASB

<sup>208</sup> CPAA

<sup>209</sup> CPAA

<sup>210</sup> AGNZ

324. The TF notes that the Code does not require or encourage PAs to disclose when they choose not to adhere to any of its provisions. Therefore, the TF proposes adopting an equivalent approach for Part 5. Otherwise, non-PAs would be subject to more stringent provisions than PAs. In addition, the TF considers that requiring or encouraging such disclosure could be interpreted as a “seal of recognition” even in cases where there might be no control or monitoring by an oversight body. In light of the above, the TF proposes no change.
325. Regarding the relationship between Section 5380 and Subsection 5604, the TF considers that due to the broader scope of the ethics provisions in Part 5 (compared to the scope of the IIS in Part 5), the SAP might be providing tax services to a sustainability assurance client when the sustainability assurance engagement in question is not subject to the IIS in Part 5. In this case, Section 5380 applies. However, in case the engagement is subject to the IIS in Part 5, then Subsection 5604 applies and Section 5380 does not apply. The TF proposes no change.

#### **Matter for IESBA Consideration**

15. IESBA members are asked to share views on the TF’s proposals, including revisions to paragraphs 5100.1, 5100.2(a), 5100.6 A3, 5115.2 A1, 5113.1 A2, 5120.14 A1, 5300.7 A3 and 300.7 A3.

### **M. Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest**

#### **Question 20**

***Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information?***

326. The IESBA considered whether to develop ethics standards for sustainability reporting to apply to all preparers of sustainability information (i.e., profession-agnostic). While recognizing the public interest benefits of all preparers of sustainability reporting being subject to the same robust ethics standards, the IESBA determined to restrict the scope of the current Sustainability project to developing ethics standards for sustainability reporting by PAs and not extend these standards to non-PA preparers at this stage. In reaching this decision, the IESBA took into account that there was no regulatory call for profession-agnostic standards for sustainability reporting. There were also no strong views from stakeholders at the global roundtables in 2023 that the scope should include profession-agnostic ethics standards for sustainability reporting.
327. However, in developing its SWP 2024-2027, the IESBA observed that there is a public expectation that all preparers of financial and non-financial information should be subject to the same high ethics standards. Therefore, the IESBA agreed it was in the public interest to establish a new work stream to explore extending the impact of the Code to all preparers of sustainability reporting. This new work stream is due to commence in 2025.

#### **Overview of Responses**

328. Forty-nine respondents (55%) provided views on this question, and forty respondents (45%) did not have any further comments to raise (see separate NVivo report in **Agenda Item 2-C.20** for details).

## Respondents' Comments

329. A substantial body of respondents providing views on this question indicated support for the IESBA's new work stream on exploring extending the scope of the Code to all preparers of sustainability information.
330. Many respondents<sup>211</sup> recommended that the IESBA engage with a wide range of stakeholders in the sustainability reporting space such as non-PA preparers, investors, regulators, standard setters, and civil society organizations. The respondents provided various suggestions to approach this, including the following, amongst others:
- Use existing frameworks of connections (e.g. SRG and NSS).
  - Gather input from large/medium-sized companies on how to amend/improve the Code.
  - Establish buy-in from regulators/professional bodies (including those responsible for non-PAs).
331. Several respondents<sup>212</sup> recognized the benefit and/or public interest in having all preparers of sustainability information be subject to the same ethics standards and establishing a level playing field. A few respondents<sup>213</sup> suggested defining who "all preparers" covers so that the scope is not only sufficiently broad but also workable and enforceable. However, many respondents<sup>214</sup> referred to the diverse backgrounds of non-PAs who might not be subject to the Code, with many comments highlighting the following, among others:
- It is unclear how regulatory oversight of compliance with the Code will occur for non-PAs.
  - Not having background knowledge of the Code might be seen as a barrier to entry or burden.
  - The importance of promoting adoption and implementation by non-PAs, without which widespread adoption is unlikely.
332. Some respondents<sup>215</sup> suggested that the IESBA should first determine the level of demand from preparers and regulators, including assessing whether similar work is being undertaken elsewhere and whether the IESBA should lead and bring industries together. A respondent<sup>216</sup> recommended that the IESBA gauge acceptance of the IESSA by non-PAs and regulators before commencing any initiative on extending the Code to all preparers of sustainability information. Some respondents<sup>217</sup> queried whether it is in the public interest to extend the scope of the Code to all preparers of sustainability information. Another respondent<sup>218</sup> suggested that the International Foundation for Ethics and Audit (IFEA) address resourcing and funding for the IESBA (and implicitly the IAASB as IFEA houses both Boards) first as it is unreasonable to expect the accountancy profession to be almost sole funders of the IESBA (and implicitly, through IFEA, also the IAASB).

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<sup>211</sup> BAOA, ESMA, NASBA, AGNZ, UNCTAD ARP, APESB, ACCA, AE, AIC, CPAA, CPAC, HKICPA, IICA, JICPA, MIA (Malaysia), Assirevi, BDO, DTTL, Moore, NSU

<sup>212</sup> ESMA, NASBA, AIC, CAI, CPAC, EFAA, HKICPA, ICAEW, SAICA, NSU, AFAANZ

<sup>213</sup> SOCPA, WPK

<sup>214</sup> DIR, GAO, CAANZ, CAI, CPAA, EFAA, ICAEW, IFAC, PAFA, BDO, DTTL, EY, PWC, RSM, AFAANZ

<sup>215</sup> AE, CAANZ, WPK, IWP, KPMG, Mazars

<sup>216</sup> ICAS

<sup>217</sup> GAO, AICPA, JICPA

<sup>218</sup> CPAA

333. Many respondents<sup>219</sup> offered suggestions on approaching standards development, including differing views about whether the IESBA should revise the existing Code and not create another separate Part,<sup>220</sup> or not replicate Part 2 and make the provisions truly targeted to the preparation of sustainability information.<sup>221</sup> Some respondents<sup>222</sup> highlighted the importance of compliance systems, monitoring, and enforcement to ensure the standards are successful.

### TF Views and Proposals

334. The TF notes that this question and the comments received do not relate to or impact the proposed revisions in the ED. Accordingly, the TF does not propose any amendments resulting from these comments. The respondents' comments will be duly considered by the project team when the new work stream commences in 2025.

#### **Question 21**

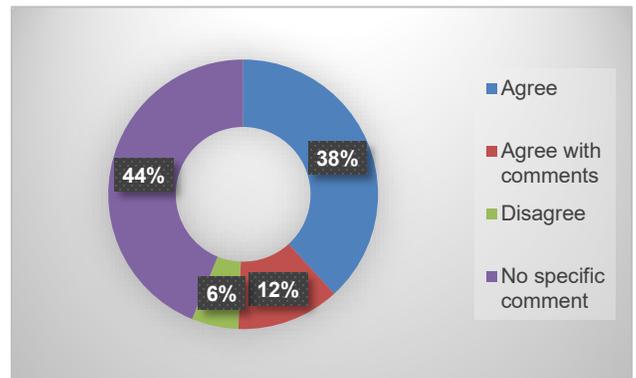
***Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics?***

335. The IESBA is of the view that the proposed sustainability reporting-related revisions are responsive to the public interest, considering the PIF's qualitative characteristics of a standard, in particular: coherence with the overall body of the IESBA's standards, relevance, clarity and conciseness of the standards, and implementability and enforceability.

### Overview of Responses

336. Responses to Question 21 were as follows (see separate NVivo report in **Agenda Item 2-C.21** for details):

- 34 respondents agreed – 38%;
- 11 respondents agreed with comments – 12%;
- 5 respondents did not agree – 6%; and
- 39 respondents did not have a specific response – 44%.



### Respondents' Comments

337. A substantial body of respondents who answered this question agreed that the proposed sustainability reporting-related revisions to the Code are responsive to the public interest, considering the PIF's qualitative characteristics.

<sup>219</sup> BD, UNCTAD ARP, ACCA, CPAA, IFAC, CNCC-CNOEC, IDW, DTTL

<sup>220</sup> CPAA

<sup>221</sup> DTTL

<sup>222</sup> BAOA, ICAEW, JICPA, SAICA, ICPAU

338. A few respondents<sup>223</sup> noted concerns about application, adoption, implementation, and enforcement specific to non-PAs, including the following:

- It is unclear what mechanisms exist outside the accountancy profession to generate adoption and implementation, meaning considerable resources will be required for education and training and to achieve consistent application.
- Extending beyond boundaries of reasonable adoption, implementation, or enforcement will diminish the Code’s global brand.

339. With regards to the PIF characteristics:

- Some respondents<sup>224</sup> raised concerns about the characteristics of coherence, relevance, and/or clarity and conciseness, including challenges to make the standards accessible to all stakeholders, especially non-PAs, requiring additional implementation materials, and that the language used in the Code creates a barrier for unfamiliar users.
- Another respondent<sup>225</sup> expressed the view that the characteristics of coherence, clarity and conciseness, comprehensiveness, and implementability do not appear to be adequately addressed.
- A few respondents<sup>226</sup> noted that the “scalability” characteristic is not addressed in the EM. The respondents’ comments included that whilst the proposals are scalable or that “scalability” will be considered over time as sustainability reporting evolves, they suggested that “scalability” should be considered when finalizing the standards.

340. A few respondents<sup>227</sup> considered that ethics standards that apply to all preparers of sustainability information are more appropriate for reasons including to promote a level playing field, and that the proposals do not address the critical roles of all preparers in the sustainability supply chain.

341. Some respondents<sup>228</sup> raised other concerns including:

- Whether the extant Code, which was developed for quantitative financial information, can be applied to sustainability information (more qualitative in nature).
- Whether the Code needs to be updated as sustainability practices evolve.
- Potential unintended consequences due to:
  - Immaturity of sustainability, the broad definition of sustainability information, and lack of clarity around the value chain and application of ISSB standards.
  - Whether PAs can appropriately consider the needs and materiality considerations of the broad range of users of sustainability information.

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<sup>223</sup> ICPAU, IFAC, PAFA

<sup>224</sup> IFAC, SOCPA, PAFA, BDO, PP

<sup>225</sup> GAO

<sup>226</sup> CAANZ, CFAR, EFAA

<sup>227</sup> CAANZ, MIA (Malta), NSU

<sup>228</sup> ACCA, AE, AICPA, PP

## TF Views and Proposals

342. On comments raised regarding the applicability of the sustainability reporting-related revisions to those outside the accountancy profession, the TF emphasizes that the proposed sustainability reporting-related revisions will only apply to PAs.
343. Whilst the PIF’s characteristics of “comprehensiveness”<sup>229</sup> and “scalability”<sup>230</sup> were not directly addressed in the EM, the TF believes the proposals are responsive to these characteristics as they build on the already robust ethics standards in the extant Code, which already incorporates scalability. The TF proposes to address “comprehensiveness” and “scalability” in the Basis for Conclusions for the final standard.
344. The extant Code already applies to non-financial information (including qualitative information) and the proposals respond to a public interest need to ensure it remains fit for purpose for sustainability reporting by PAs in the short term.
345. The IESBA’s new work stream to explore extending the impact of the Code to all preparers of sustainability information could consider evolving sustainability practices, including the value chain and application of ISSB standards. Sustainability reporting frameworks address the needs and materiality considerations for users of sustainability information, whereas the Code addresses PAs’ behavior when preparing or presenting information.

### **Matter for IESBA Consideration**

16. IESBA members are asked to share views on the TF’s proposals to address the PIF’s qualitative characteristics of “comprehensiveness” and “scalability” in the Basis for Conclusions accompanying the final standard.

## N. Proposed Revisions to the Extant Code

### **Question 22**

***Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including:***

- (a) Proposed revisions to Section 220?***
- (b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?***
- (c) Other proposed revisions?***

346. The rapidly changing global and national sustainability standard setting ecosystem, and the qualitative and forward-looking nature of sustainability information result in increased challenges,

<sup>229</sup> “Comprehensiveness, through limiting the extent to which there are exceptions to the principles set out.”

<sup>230</sup> “Scalability, including the proportionality to the standard’s relative impact on different stakeholders, e.g., how a standard addresses the audit or assurance needs of small and medium sized enterprises (SMEs) as well the needs of complex, listed entities.”

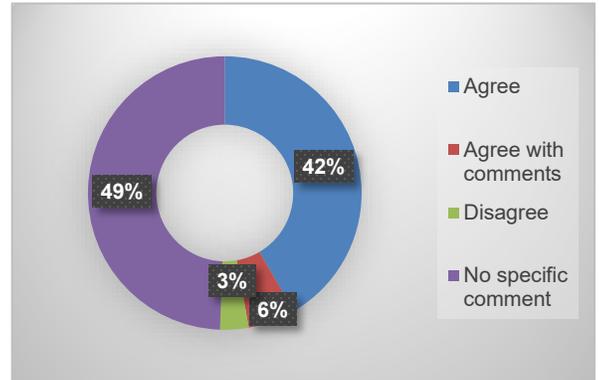
complexity and uncertainty in preparing or presenting sustainability information. Accordingly, PAs' exercise of discretion and professional judgment play a crucial role when performing such activities.

347. Extant Parts 1 to 3 of the Code already contain robust standards addressing ethics issues that might arise when performing financial or non-financial reporting. Accordingly, the sustainability reporting-related revisions in the ED were not substantive. They aimed to ensure these Parts remain fit for purpose for sustainability reporting by including sustainability references where applicable, and revisions to existing examples and new examples specific to conduct to mislead (e.g., “greenwashing”), value chain considerations, and forward-looking information.

### Overview of Responses

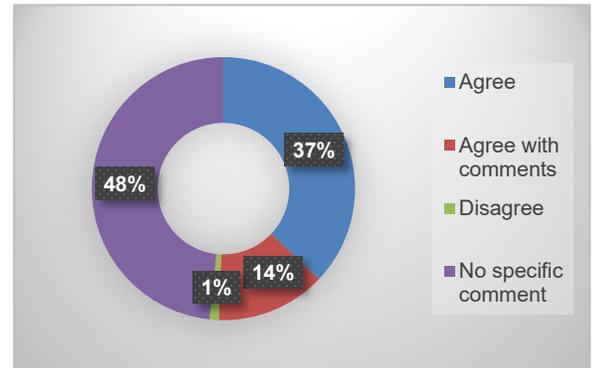
348. Responses to Question 22(a) were as follows (see separate NVivo report in **Agenda Item 2-C.22** for details):

- 37 respondents agreed – 42%;
- 5 respondents agreed with comments – 6%;
- 3 respondents did not agree – 3%; and
- 44 respondents did not have a specific response – 49%.



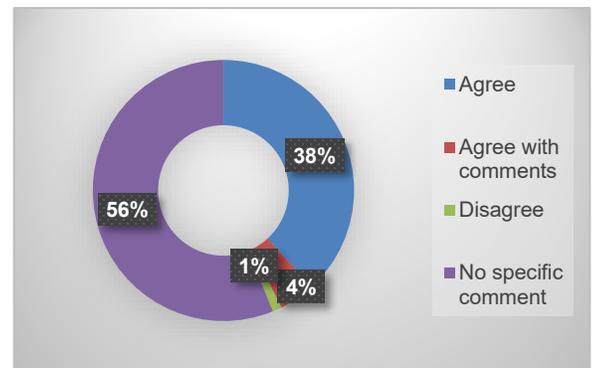
349. Responses to Question 22(b) were as follows (see separate NVivo report in **Agenda Item 2-C.22** for details):

- 33 respondents agreed – 37%;
- 12 respondents agreed with further comments – 14%;
- 1 respondent did not agree – 1%; and
- 43 respondents did not have a specific response – 48%.



350. Responses to Question 22(c) were as follows (see separate NVivo report in **Agenda Item 2-C.22** for details):

- 34 respondents agreed – 38%;
- 4 respondents agreed with comments – 4%;
- 1 respondent did not agree – 1%; and
- 50 respondents did not have a specific response – 56%.



## Respondents' Comments

351. A substantial body of respondents who answered these questions agreed with the proposed sustainability reporting-related revisions to Parts 1 to 3 of the extant Code.

### *Section 220 Preparation and Presentation of Information*

352. A few respondents<sup>231</sup> suggested amendments to paragraph 220.3 A2, including changing “*operations and state of affairs*” to “*activities and state of affairs*.” Such a change would capture broader matters such as social initiatives. There was a suggestion to consider making the proposed sustainability information example more specific and to incorporate operations in addition to financial state of affairs. One of these respondents<sup>232</sup> also suggested that paragraph 220.3 A3 could refer to the broad remit of entities, including value chain entities, to consider when “*collecting, recording, measuring, maintaining and approving information*.”

353. Some respondents<sup>233</sup> provided comments on the proposed example in paragraph 220.4 A1:

- Using “greenwashing” within the example, as although this term is not defined, it is well understood and would be appropriate in the application material.
- Including another example on omitting, or including false, information relating to an entity’s strategic objectives, governance, risk management or business model.
- A concern that the example narrowly interprets “greenwashing” and “greenhushing” as a deliberate action. There was a suggestion to consider also addressing excessive optimism, unintentional misrepresentations, or “greenwishing” (such as failing to apply an inquiring mind).

354. A few respondents<sup>234</sup> provided suggestions relating to the proposed example in paragraph 220.4 A3 on placing undue reliance on the data from a value chain entity (paragraph 220.4 A4 in **Agenda Item 2-A**):

- Including a reference in this paragraph to the material on “Using the work of others” (paragraphs R220.7 to 220.7 A1) and “Using the output of technology” (paragraphs R220.8 and 220.8 A1).
- As the value chain data is from a third party, adding “*reliability*” to the other criterion “*source, relevance and sufficiency*.”
- Providing further non-authoritative material on the value chain, which is a new concept, as preparers may need guidance on evaluating the information from therein.

355. A few respondents<sup>235</sup> provided suggestions relating to the proposed examples in paragraph 220.5 A1, including recommendations to:

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<sup>231</sup> CAI, BDO

<sup>232</sup> BDO

<sup>233</sup> CAI, ICAEW, Mazars, DIRC

<sup>234</sup> ICAS, Mazars, EY

<sup>235</sup> EY, CAI

- Make the proposed example on performing a materiality assessment (fourth bullet point) clearer by emphasizing that the risk relates to the preparer omitting or obscuring information in order to misrepresent.
- Include an additional example on forward-looking information relating to using an inappropriate or unsubstantiated baseline to assess progress against targets.

356. A respondent<sup>236</sup> suggested there should be greater clarity in the encouragement to document in paragraph 220.11 A1 on when documentation should be prepared, for example, whether it is when threats need to be addressed, or when discretion is exercised in preparing or presenting information.

#### *Other Matters*

357. A few respondents<sup>237</sup> provided comments on the proposed examples in paragraph 200.6 A1:

- Whether the example in paragraph 200.6 A1(a) on holding a financial interest in a supplier of an employing organization is appropriate, noting that whilst this could create a self-interest threat in a few cases, suppliers are not controlled like subsidiaries and the make-up of a value chain is unpredictable and subject to rapid change.
- Suggestions for the following additional examples:
  - For paragraph 200.6 A1(b) on a self-review threat resulting from a PA performing a taxonomy alignment assessment to a sustainability reporting standard after writing the business case for a capital project, which included the project aligning to that standard.
  - A conflict of interest arising within a small team where the same individual is tasked with writing, evaluating, and reporting on a sustainability assessment methodology.

358. A respondent<sup>238</sup> believes that the inclusion of references to “*non-financial information, including sustainability information*” (in Parts 1 to 3 of the Code) suggests future revisions will be made when non-financial information reporting expands beyond sustainability. This respondent also believes that the references to “*financial or non-financial*” before “performance” goals/conditions/indicators in paragraphs 240.3 A2 and 270.3 A2 could be removed. The respondent alternatively suggested amending “or” to “and/or” or “and” in those paragraphs.

359. One respondent<sup>239</sup> did not support proposed paragraph 300.7 A4a, and the associated factor added to paragraph 320.3 A4, on the quantitative and qualitative characteristics of the value chain. The respondent does not believe they are appropriate examples for a PA’s evaluation of threats as value chain entities are outside the organizational boundary of, and there is insufficient relationship with, the client. Another respondent suggested including a cross reference to paragraph 300.7 A4a in paragraph 320.3 A4.<sup>240</sup>

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<sup>236</sup> BDO

<sup>237</sup> CAI, RSM

<sup>238</sup> CPAA

<sup>239</sup> KPMG

<sup>240</sup> Mazars

360. Some respondents<sup>241</sup> raised additional matters for the IESBA’s consideration including:
- With little sustainability reporting presently, it is difficult to anticipate practical issues with the proposals.
  - The examples may be overly complex or difficult to apply in practice, especially for PAs without extensive experience in sustainability reporting.
  - It is unclear how the examples address unique ethical issues in sustainability reporting. In addition, the examples on exercising professional judgment do not provide guidance on navigating the complexities of sustainability reporting frameworks.
  - A request for more detailed application material and/or worked examples to promote consistent application.

## TF Views and Proposals

### *Section 220 Preparation and Presentation of Information*

361. The TF agrees with the respondents’ comments on paragraph 220.3 A2. “Operations” could be narrowly read to relate to products or services, whereas “activities” is a broader term<sup>242</sup> capturing other matters such as social initiatives or human resources (both relevant to sustainability). Further, the proposed revisions intend to emphasize that sustainability information exceeds “state of affairs.” Accordingly, the TF proposes amending paragraph 220.3 A2 in **Agenda Item 2-A** to “*activities and state of affairs*” and revising the example to include “*information on the organization’s products, services, or other relevant activities.*”
362. However, the TF does not believe paragraph 220.3 A3 should include a reference to a range of entities, including value chain entities, to consider when “*collecting, recording, measuring, maintaining and approving information.*” Sustainability reporting frameworks generally define the “value chain” and establish the information required from therein. Further, this paragraph relates to all types of information, financial or non-financial, and not just sustainability information.
363. The TF does not believe the term “greenwashing” should be used in paragraph 220.4 A1 as it is not a defined term, and the Code does not generally use such “terms of art” due to the risk of different interpretations. Further, the example in paragraph 220.4 A1 was purposefully drafted to apply to a wide range of circumstances and the definition of “sustainability information” is broad. Therefore, the TF believes the example already applies to the respondent’s suggestion relating to an “*entity’s strategic objectives, governance, risk management or business model,*” negating the need for an additional example.
364. However, the TF agrees with the suggestions to incorporate an example of unintentional “greenwashing” or “greenhushing,” sometimes referred to as “greenwishing.” Accordingly, the TF proposes a new example at paragraph 220.4 A3 in **Agenda Item 2-A** on inappropriate exercise of professional judgment (i.e. breach of paragraph R220.4(c)). As bias can affect the exercise of professional judgment, this example draws on the example of confirmation bias in paragraph 120.12

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<sup>241</sup> AICPA, ICAEW, SOCPA, PP

<sup>242</sup> The ISSB, ESRS, and GRI sustainability standards all use “operations” and “activities”, with the latter appearing to be broader terminology.

A2<sup>243</sup> and applies to both financial and non-financial information, which maintains a balance of examples across financial and sustainability information.

365. The TF does not propose to amend paragraph 220.4 A4 in **Agenda Item 2-A**. The Code does not generally include references in examples to other provisions. Doing so might inadvertently result in a disproportionate weighting being placed on that example. Further, the reference to “*source, relevance, and sufficiency*” in paragraph 220.4 A3 relates to material on “having an inquiring mind” (paragraphs R120.5 to 120.5 A3). Paragraph 120.5 A2 sets out matters to consider when considering “*source, relevance, and sufficiency,*” including whether “*the information provides a reasonable basis on which to reach a conclusion,*” which the TF believes adequately covers the respondent’s suggestion to include “*reliability.*”
366. The TF believes the respondent’s suggested amendments to the proposed example in paragraph 220.5 A1 on performing a materiality assessment (fourth bullet) to emphasize that the risk relates to the preparer omitting or obscuring information to misrepresent, improves clarity and should be adopted (see **Agenda Item 2-A**). However, the TF does not believe the additional example on forward-looking information is warranted due to it being similar to another example already included in the ED (final bullet).
367. The TF notes that whilst extant paragraph 220.11 A1 encourages documentation, it does not specify when the PA should perform the documentation as this requires the exercise of professional judgment and depends on the facts and circumstances. Similarly, other encouragements to document in the Code do not generally specify when documentation should occur (e.g. paragraphs 110.2 A3, 210.8 A3, 270.4 A1, 310.9 A4 and 360.40 A1). Accordingly, the TF does not propose amending paragraph 220.11 A1.

#### *Other Matters*

368. The proposed example in paragraph 200.6 A1(a) on holding a financial interest in a supplier does not contemplate that all such situations will create a self-interest threat, or all threats are not at an acceptable level (i.e., the PA must apply the conceptual framework). However, the TF agrees with the respondent that holding such an interest might not create a substantive threat in most cases. Coupling this with the complexity of tracking financial interests where the value chain composition might change often and rapidly, the TF proposes to delete this example (see **Agenda Item 2-A**). However, the TF does not propose to add additional examples for paragraph 200.6 A1(b) on a self-review threat or conflict of interest due to similarities to the example in paragraph 200.6 A1(b) included in the ED.
369. Extant Parts 1 to 3 of the Code already address non-financial reporting, including but not limited to sustainability reporting. The inclusion of the references to “*non-financial information, including sustainability information*” aims to ensure Parts 1 to 3 remain fit for purpose for sustainability reporting, and there is no intention to suggest that future revisions will be made to the Code when non-financial reporting expands beyond sustainability information.
370. The TF does not propose to amend paragraphs 240.3 A2 and 270.3 A2. Including references to “*financial or non-financial*” before “performance” in these paragraphs reflects that financial interests,

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<sup>243</sup> Paragraph 120.12 A2 sets out examples of bias to be aware of when exercising professional judgment including “*confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief*”.

compensation and incentives might also be linked to non-financial, including sustainability, measures. The TF also believes it is unnecessary to change “or” to “and/or” or “and” in these paragraphs as it is clear in these instances that it can be financial, non-financial, or both.

371. The TF remains of the view that quantitative and qualitative characteristics of a client’s value chain might impact the PA’s evaluation of threats (paragraphs 300.7 A4a and 320.3 A4). A threat to professional competence and due care might be impacted where different reporting frameworks are used by multiple suppliers (from outside the client’s organizational boundary), and the PA needs to use information from those entities to prepare or present the client’s sustainability information. Further, the TF does not believe a cross reference to paragraph 300.7 A4a in paragraph 320.3 A4 is necessary, and doing so might inadvertently result in a disproportionate weight being placed on this factor. However, the TF proposes to make the same revisions to paragraph 300.7 A4a as to paragraph 5300.7 A4a (refer paragraph 317) and to change “*relevant to the service*” to “*the accountant is preparing or presenting*” (see **Agenda Item 2-A**).
372. In respect of the additional matters raised by respondents (refer paragraph 360), the TF notes that the examples added aim to highlight the ethical risks for PAs to consider when preparing or presenting sustainability information. Sustainability reporting frameworks set out what is required to be done under those frameworks, whereas the Code guides behavior, including the exercise of professional judgment and discretion. The TF suggests that implementation support materials the IESBA might commission could cover evaluating information provided by value chain entities and include additional examples based on those provided by respondents on self-interest threats, conflicts of interest, and “greenwashing.”

#### **Matter for IESBA Consideration**

17. IESBA members are asked to share views on the TF’s proposals:
- To amend paragraphs 200.2, 200.6 A1(a), 200.7 A3, 220.3 A2, 220.4 A3, 220.5 A1 (fourth bullet), 220.6 A1, and 300.7 A4a.
  - Not to amend paragraphs 200.6 A1(b), 220.3 A3, 220.4 A1, 220.4 A4, 220.5 A1 (final bullet), 220.11 A1, 240.3 A2, 270.3 A2, and 320.3 A4.

#### **Question 23**

***Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?***

#### **Overview of Responses**

373. Three respondents (3%) had additional matters to raise, and eighty-six respondents (97%) did not have any other matters to raise (see separate NVivo report in **Agenda Item 2-C.23** for details).

## Respondents' Comments

374. A few respondents<sup>244</sup> provided the following drafting suggestions to:

- Add sustainability specific references to paragraphs 100.2, 120.13 A2, 200.2 and 200.6 A1(d) and (e).
- Remove references to “*including sustainability information*” in Parts 2 and 3 as it could create problems if future revisions are made relating to other non-financial information.
- Include a reference to “*over both financial and non-financial, including sustainability, information*” in paragraph 200.7 A3 to emphasize the importance of having controls on both financial and non-financial information.

## TF Views and Proposals

375. References to “*including sustainability information*” were specifically included in the ED, including similar revisions to paragraphs 200.2 and 200.6 A1(d) and (e) as suggested by the respondent, to ensure that the extant Code remains fit for purpose for sustainability reporting. However, the TF does not believe additional granularity in paragraphs 100.2 and 120.13 A2 is required. Further, if other revisions to non-financial information are required in the future, it would already be captured as “sustainability information” is only a subset of “*non-financial information*” in the proposals.

376. The TF Force agrees with the respondent’s suggestion to highlight the importance of controls over both financial and non-financial information as sustainability is an emerging area and sustainability information might be extracted from throughout an organization. The TF also believes the connection between financial and sustainability information and the interaction between the respective internal controls and systems are critical for robust reporting. Whilst revisions to paragraph 200.7 A3 were not contemplated in the ED, the TF proposes to include a reference to “*over both financial and non-financial, including sustainability, information and their interconnection*” in that paragraph (see **Agenda Item 2-A**).

### **Matter for IESBA Consideration**

18. IESBA members are asked to share views on the TF’s proposals to:

- Add “*over both financial and non-financial, including sustainability, information and their interconnection*” to paragraph 200.7 A3.
- Not add the suggested references to paragraphs 100.2, 120.13 A2, 200.2 and 200.6 A1.
- Not remove references to “*including sustainability information*” in Parts 2 and 3.

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<sup>244</sup> ICAS, IFAC

## O. Effective Date

### **Question 24**

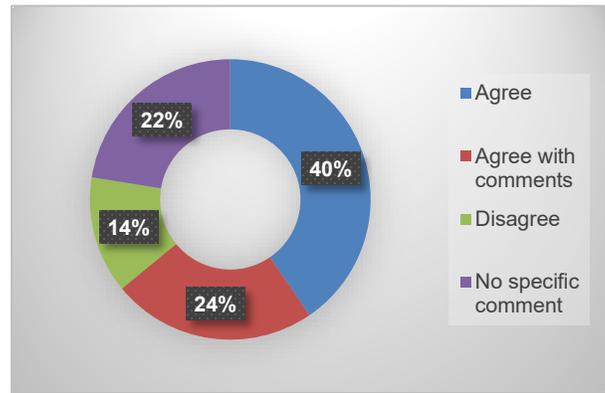
***Do you support the IESBA’s proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?***

377. The EM accompanying ISSA 5000-ED proposed an effective date of 18 months after the final approval of ISSA 5000, with earlier application permitted and encouraged.<sup>245</sup> The TF has coordinated with the IAASB TF to agree on an effective date for the respective sets of standards.

### **Overview of Responses**

378. Responses to Question 24 were as follows (see separate NVivo report in **Agenda Item 2-C.24** for details):

- 36 respondents agreed – 40%;
- 21 respondents agreed with comments – 24%;
- 12 respondents did not agree – 14%; and
- 20 respondents did not have a specific response – 22%.



### **Respondents’ Comments**

379. A substantial body of respondents agreed with the IESBA’s proposal to align the effective date of the final provisions with the effective date of ISSA 5000. Respondents’ comments included:

- Many respondents believed the IESBA should provide a sufficient implementation period and support material with comments, including:
  - Providing sufficient time to develop implementation materials, translation, and for training, system updates, information gathering, and familiarization.<sup>246</sup>
  - Balancing the urgency (e.g., mandatory assurance commencing) against the need for a sufficient implementation period (scale of changes and new user base).<sup>247</sup>
  - PAs requiring time and effort to align and adjust policies, procedures and systems, and to design and implement internal controls.<sup>248</sup>

<sup>245</sup> Question 27 on page 38 of [IAASB-International-Standard-Sustainability-Assurance-5000-Explanatory-Memorandum](#)

<sup>246</sup> IRBA, NZAuASB, CAI, CBPS-CFC-IBRACON, GAA, IDW, IFAC, JICPA, PAFA, KPMG

<sup>247</sup> MIA (Malaysia), PWC

<sup>248</sup> ACRA, AICPA, CAI, JICPA, BDO

- Non-PAs requiring time to understand obligations, enhancing and developing policies and procedures, considering network arrangements, and carrying out implementation (including quality management).<sup>249</sup>
- Several respondents<sup>250</sup> recommended allowing sufficient time to address stakeholder concerns, including suggestions to not prioritize aligning effective dates over high-quality standards and the due process.
- Some respondents<sup>251</sup> highlighted the importance of the IESBA and IAASB coordination and interoperability of the respective standards.
- Some respondents<sup>252</sup> suggested providing transitional arrangements, including for NAS and long-association provisions.
- Some respondents<sup>253</sup> suggested an earliest effective date of June 2026, or at least two years after the standards are issued, and to allow early adoption.

### **TF Views and Proposals**

380. Following close coordination with the IAASB<sup>254</sup> and taking into account feedback received from respondents, the TF agreed to align the effective date of the IESSA with ISSA 5000, which will provide sufficient time for adoption and implementation. Accordingly, the TF proposes that the IESSA be effective for assurance engagements on sustainability information reported:

- For periods beginning on or after December 15, 2026; or
- As at a specific date on or after December 15, 2026.

The TF also proposes that early adoption be permitted and encouraged.

381. With regards to the effective date of the sustainability reporting-related revisions in the ED, the TF proposes that these revisions be effective as of December 15, 2026, with early adoption permitted. The reasons for the TF's proposals are as follows:

- Whilst these proposed revisions are not substantive and only apply to PAs, the accountancy profession is currently subject to adoption and implementation impacts from a range of new standards.
- Aligning effective dates with the IESSA as a package eliminates confusion and minimizes the impact on NSS, PAOs and PAs by enabling concurrent adoption and implementation.
- Permitting early adoption allows jurisdictions to accelerate adoption if required.

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<sup>249</sup> ACRA, ACCA, AICPA, CAI, GAA, BDO, KPMG, PP, PWC, IBA

<sup>250</sup> ACCA, AICPA, CAANZ, CAI, CNCC-CNOEC, FACPCE, IWP, PAFA, PICPA, DTTL, GITL, AFAANZ

<sup>251</sup> AICPA, CAI, CNCC-CNOEC, FACPCE, ICPAU, GTIL, KPMG, Moore

<sup>252</sup> NZAuASB, ACCA, CAANZ, ICAEW, JICPA, KPMG

<sup>253</sup> CAI, IDW, MIA (Malaysia), KPMG, PWC

<sup>254</sup> There have been regular IESBA and IAASB Staff meetings. The IESBA and IAASB Chairs, the Chairs of the respective Task Forces, and Staff also held a coordination meeting on July 15, 2024, which discussed the effective dates of the respective standards.

**Matter for IESBA Consideration**

19. IESBA members are asked to share views on the TF’s proposals that:

- The IESSA be effective for assurance engagements on sustainability information reported:
  - For periods beginning on or after December 15, 2026; or
  - As at a specific date on or after December 15, 2026.
- Sustainability reporting-related revisions to the Code be effective as of December 15, 2026.

With early adoption permitted and encouraged.

**Request for General Comments**

- (a) Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.**
- (b) Regulators and Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and oversight communities.**
- (c) Sustainability Assurance Practitioners Other than Professional Accountants – The IESBA invites comments on the clarity, understandability and usability of the proposals from sustainability assurance practitioners outside of the accountancy profession who perform sustainability assurance engagements addressed by the International Independence Standards in the proposed Part 5 of the Code.**
- (d) Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.**
- (e) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.**

**Overview of Responses**

382. Responses to the Request for General Comments (a) to (e) were as follows (see separate NVivo report in **Agenda Item 2-C.25** for details):

Respondents	Request for General Comments									
	(a)		(b)		(c)		(d)		(e)	
	#	%	#	%	#	%	#	%	#	%
Comment	11	12%	6	7%	2	2%	1	1%	7	8%
No comment	78	88%	83	93%	87	98%	88	99%	82	92%
<b>TOTAL</b>	<b>89</b>	<b>100%</b>	<b>89</b>	<b>100%</b>	<b>89</b>	<b>100%</b>	<b>89</b>	<b>100%</b>	<b>89</b>	<b>100%</b>

## Respondents' Comments

383. Responses to the Request for General Comments are summarized below. The TF notes that comments with greater specificity were often provided in response to other questions in the ED.

### *Request for General Comments (a) – SMEs and SMPs*

384. Several respondents (12%) had additional matters to raise including that:

- Implementation will be challenging for SMEs/SMPs due to resource and time limitations:<sup>255</sup>
  - Setting up systems of quality management, including monitoring and educating non-PAs.
  - Managing independence and the value chain.
  - Considering developing an abbreviated Code for SMEs/SMPs.
  - Developing guidance for those with little experience in sustainability assurance.
- SMPs are struggling with the pace of change, including to update manuals and processes, training and monitoring and control of new changes.<sup>256</sup>
- Scalability is important and whether there could be a tailored approach for SMEs/SMPs, including for NAS and independence when a SAP is also the auditor for the same client.<sup>257</sup>

### *Request for General Comments (b) – Regulators and Oversight Bodies*

385. Some respondents (7%) had additional matters to raise including the following:

- Further clarity is required on how the IESSA accommodates the unique perspectives of non-PAs; uncertainty regarding the regulation of the IESSA for non-PAs; and recommendations for a post-implementation review to ensure enforceability has been addressed, and to monitor the need for additional guidance and training.<sup>258</sup>
- A need to collaborate with, and incorporate feedback from, regulators and oversight bodies for a coordinated approach, consistency, reliability and enforceability of regulatory frameworks.<sup>259</sup>
- Challenges for PAOs undertaking quality reviews, including due to the inherent assumption that PAs can demand information from third parties and assume responsibility for others' actions.<sup>260</sup>
- The pace of change to the Code has resulted in a decrease in jurisdictions keeping up to date and that the IESSA will create additional enforcement, education, and training challenges.<sup>261</sup>

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<sup>255</sup> APESB, CPAA, EFAA, ICAEW, IDW, PAFA

<sup>256</sup> ACCA, EFAA, IFAC

<sup>257</sup> BICA, CFAR

<sup>258</sup> ACCA, CPAC, ICAEW

<sup>259</sup> BICA

<sup>260</sup> CPAA

<sup>261</sup> IFAC

- Concerns about the practical implementation of the standards, particularly in respect of value-chains and transparency of adherence across a broad range of stakeholders.<sup>262</sup>

*Request for General Comments (c) – Sustainability Assurance Practitioners Other than PAs*

386. A few respondents<sup>263</sup> raised additional matters, including that clarity, understandability, and usability is enhanced by considering stakeholder feedback from diverse backgrounds and perspectives, and collaboration and inclusivity in standard setting fosters broader acceptance and adoption.

*Request for General Comments (d) – Developing Nations*

387. One respondent noted that feedback from stakeholders in developing nations about the unique challenges faced in adopting and implementing the proposed IESSA should be considered and addressed to ensure that it is accessible and effective, and to promote equitable participation and progress.<sup>264</sup>

*Request for General Comments (e) – Translations*

388. Some respondents (8%) had additional matters to raise, including the following:

- Accurate and accessible high-quality translations are essential for timely and effective global adoption; audit-based terminology is challenging for non-PAs and translation; and suggestions to avoid lengthy sentences and use concise wording.<sup>265</sup>
- Suggestions to establish translation libraries which would create consistency in interpretation, and efficiencies for translation through traditional methods or artificial intelligence.<sup>266</sup>
- Maintaining alignment with the IAASB will assist translation.<sup>267</sup>

**TF Views and Proposals**

389. Whilst acknowledging the general concern relating to the pace of change, the TF notes that the IESBA is developing its sustainability standards to address a pressing public interest need and call from the regulatory community. The TF is also of the view that the proposed effective date will give both PAs and non-PAs sufficient time to implement the new standards, taking into account the implementation guidance material that will be developed (refer Question 24 on the effective date). The proposed standards also incorporate scalability as embedded in the extant Code.

390. The ED also responds to a regulatory call for ethics and independence standards as part of the standards infrastructure for sustainability assurance. The IESBA's outreach included various regulatory and oversight bodies, and regulatory submissions on the ED have been duly considered. The IESBA's mandate does not include regulation and enforcement, which are being established at a jurisdictional level, including for non-PAs.

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<sup>262</sup> ICAEW

<sup>263</sup> ACCA, BICA

<sup>264</sup> BICA

<sup>265</sup> BICA, EFAA, IFAC, JICPA, PAFA

<sup>266</sup> ICAEW, IFAC, PAFA

<sup>267</sup> Mazars

391. The IESBA also undertook a series of outreach activities during the exposure period with the United Nations Trade and Development's (UNCTAD) African Regional Partnership (ARP), International Standards of Accounting and Reporting (ISAR) and Latin America Regional Alliance (ARL).
392. The IESBA will work with IFAC on matters relating to translation of new IESBA standards. Establishing a translation library is an issue for broader consideration as it relates to the entire Code and would be an additional matter to discuss with IFAC.

### **III. NEXT STEPS**

393. At the December 2024 IESBA meeting, the TF will present the final standards for the Board's consideration and approval.

**Appendix 1**

**List of Respondents to the IESBA Sustainability ED**

#	Abbrev.	Respondent	Region
<b>Regulators and Oversight Authorities, Including MG members</b>			
1.	ACRA	Accounting and Corporate Regulatory Authority (Singapore)	Asia Pacific (AP)
2.	BAOA	Botswana Accountancy Oversight Authority	Middle East and Africa (MEA)
3.	CEAOB <sup>268</sup>	Committee of European Auditing Oversight Bodies	Europe (EU)
4.	ESMA <sup>269</sup>	European Securities and Market Authority	EU
5.	IAASA	Irish Auditing & Accounting Supervisory Authority	EU
6.	IOSCO <sup>270</sup>	International Organization of Securities Commissions	GLOBAL
7.	IFIAR <sup>271</sup>	International Forum of Independent Audit Regulators	GLOBAL
8.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
9.	NASBA	National Association of State Boards of Accountancy (US)	North America (NA)
10.	PAABZ	The Public Accountants and Auditors Board of Zimbabwe	MEA
11.	SGX	Singapore Exchange Limited	AP
12.	UK FRC	United Kingdom Financial Reporting Council	EU
<b>Investors and Other Users</b>			
13.	Ceres	Ceres Accelerator	NA
14.	DIR	Daiwa Institute of Research Ltd.	AP
15.	IAIP	Indian Association of Investment Professionals (CFA Society India)	AP
16.	MSCI	Morgan Stanley Capital International	GLOBAL
17.	NBIM	Norges Bank Investment Management	EU
18.	SAAJ	The Securities Analysts Association of Japan	AP
<b>Preparers and Those Charged with Governance</b>			
19.	AJM	Asma Jan Muhammad (PA)	AP

<sup>268</sup> CEAOB represents auditing oversight bodies in all 27 EU member states.

<sup>269</sup> ESMA is the EU's financial markets regulator and supervisor, and its Board of Supervisors is composed of the heads of the national competent authorities of all 27 EU member states.

<sup>270</sup> IOSCO represents securities regulators in more than 130 jurisdictions, representing more than 95% of the world's securities markets.

<sup>271</sup> IFIAR consists of independent audit regulators from 56 jurisdictions representing Africa, North America, South America, Asia, Oceania, and Europe.

#	Abbrev.	Respondent	Region
20.	BD	Bruno Dirringer	EU
21.	ICFOA	International CFO Alliance	GLOBAL
<b>Public Sector Organizations</b>			
22.	AGNZ	Office of the Auditor General of New Zealand	AP
23.	GAO	US Government Accountability Office	NA
24.	UNCTAD ARL	UNCTAD’s Latin America Regional Alliance	Latin America (LA)
25.	UNCTAD ARP	UNCTAD’s African Regional Partnership	MEA
<b>Independent<sup>272</sup> National Standard Setters</b>			
26.	APESB	Accounting Professional & Ethical Standards Board (Australia)	AP
27.	NZAuASB	New-Zealand Auditing & Assurance Standards Board	AP
<b>Professional Accountancy Organizations (PAOs)<sup>273</sup></b>			
28.	ACCA δ	Association of Chartered Certified Accountants	GLOBAL
29.	AE	Accountancy Europe	EU
30.	AIC	Asociacion Interamericana de Contabilidad (Inter-American Accounting Association)	LA
31.	AICPA δ	American Institute of Certified Public Accountants Professional Ethics Executive Committee	NA
32.	BICA δ	Botswana Institute of Chartered Accountants	MEA
33.	CAANZ δ	Chartered Accountants Australia and New Zealand	AP
34.	CAI δ	Chartered Accountants of Ireland	EU
35.	CNCC-CNOEC δ	Compagnie Nationale des Commissaires aux Comptes and Conseil National de L’Ordre Des Experts-Comptables	EU
36.	CFAR	Chamber of Financial Auditors of Romania	EU
37.	CBPS-CFC-IBRACON	Comitê Brasileiro de Pronunciamentos de Sustentabilidade, Conselho Federal de Contabilidade and Instituto Brasileiro de Auditoria Independente	LA
38.	CPAA	CPA Australia	AP
39.	CPAC δ	Chartered Professional Accountants Canada Public Trust Committee	NA

<sup>272</sup> NSS that have a mandate to set national ethics standards, including independence requirements, in their jurisdictions and which do not belong to PAOs are categorized as “Independent National Standard Setters.”

<sup>273</sup> For purposes of this categorization, a PAO is a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to IFAC member bodies. **PAOs that have full, partial, or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions are also NSS and are indicated with a “δ.”**

#	Abbrev.	Respondent	Region
40.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
41.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas	LA
42.	GAA <sup>274</sup>	Global Accounting Alliance	GLOBAL
43.	HKICPA δ	Hong Kong Institute of Certified Public Accountants	AP
44.	ICAEW δ	Institute of Chartered Accountants in England and Wales	EU
45.	ICAS δ	The Institute of Chartered Accountants of Scotland	EU
46.	ICPAU δ	Institute of Certified Public Accountants of Uganda	MEA
47.	IDW δ	Institut der Wirtschaftsprüfer (Germany)	EU
48.	IICA	Institute of Indonesia Chartered Accountants	AP
49.	IFAC <sup>275</sup>	International Federation of Accountants	GLOBAL
50.	INCP	National Institute of Public Accountants of Colombia	LA
51.	IPA δ	Institute of Public Accountants (Australia)	AP
52.	ISCA δ	Institute of Singapore Chartered Accountants	AP
53.	IWP	Institut Österreichischer Wirtschaftsprüfer:innen	EU
54.	JICPA δ	Japanese Institute of Certified Public Accountants	AP
55.	KICPA	Korean Institute of Certified Public Accountants	AP
56.	MIA (Malaysia) δ	Malaysian Institute of Accountants	AP
57.	MIA (Malta)	The Malta Institute of Accountants	EU
58.	MICPA δ	Malaysian Institute of Certified Public Accountants	AP
59.	NBA δ	Royal Netherlands Institute of Chartered Accountants	EU
60.	NYSSCPA	New York State Society of CPAs	NA
61.	PAFA <sup>276</sup>	The Pan-African Federation of Accountants	MEA
62.	PICPA	Pennsylvania Institute of Certified Public Accountants	NA
63.	SAICA δ	South African Institute of Chartered Accountants	MEA
64.	SOCPA	Saudi Organization for Chartered and Professional Accountants	MEA
65.	WPK δ	Wirtschaftsprüferkammer (Germany)	EU
<b>Other Assurance Providers and Accreditation Bodies (non-PAs)</b>			
66.	AA	AccountAbility	GLOBAL

<sup>274</sup> GAA represents 10 PAOs.

<sup>275</sup> IFAC represents over 180 PAOs in more than 135 jurisdictions.

<sup>276</sup> PAFA consists of 56 PAOs in 45 countries across Africa.

#	Abbrev.	Respondent	Region
67.	IAF <sup>277</sup>	International Accreditation Forum	GLOBAL
68.	JAB	Japan Accreditation Board	AP
<b>Accounting Firms<sup>278</sup> and Sole Practitioners</b>			
69.	Assirevi*	Association of the Italian Audit Firms	EU
70.	BDO*	BDO International Limited	GLOBAL
71.	BKTI*	Baker Tilly International	GLOBAL
72.	DTTL*	Deloitte Touch Tohmatsu Limited	GLOBAL
73.	EY*	Ernst & Young Global Limited	GLOBAL
74.	GTIL*	Grant Thornton International Limited	GLOBAL
75.	KPMG*	KPMG IFRG Limited	GLOBAL
76.	Mazars*	Mazars Group	GLOBAL
77.	Moore*	Moore Global Network Limited	GLOBAL
78.	MU	Muhammad Umar - Mo Chartered Accountants	MEA
79.	PKF*	PKF Global	GLOBAL
80.	PP	Pitcher Partners Advisors Proprietary Limited	AP
81.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
82.	RSM*	RSM International Limited	GLOBAL
<b>Academia and Research Institutes</b>			
83.	AFAANZ	The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand	AP
84.	DIRC	Deakin University Integrated Reporting Centre	AP
85.	NNN	Nada Naufal, Director at the American University of Beirut	MEA
86.	NRS	Professor Nicole Ratzinger-Sakel	EU
87.	NSU	Nova Southeastern University (Florida)	NA
<b>Others</b>			
88.	IBA <sup>279</sup>	The International Bar Association	GLOBAL

<sup>277</sup> The IAF is a worldwide association representing 95 accreditation bodies, 27 association members, and 6 regional accreditation groups.

<sup>278</sup> Forum of Firms members are indicated with a \*. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies. They also have policies and methodologies for the conduct of such audits that are based to the extent practicable on and use the International Standards on Auditing (ISAs), and policies and methodologies which conform to the IESBA Code and national codes of ethics as the basis for their audit methodologies.

<sup>279</sup> The IBA's membership comprises more than 80,000 individual international lawyers from leading law firms and some 190 bar associations and law societies across over 170 countries.

Sustainability– Summary of Significant Comments on Exposure Draft and Task Force Proposals  
*IESBA Meeting (September 2024)*

#	Abbrev.	Respondent	Region
89.	IIA <sup>280</sup>	The Institute of Internal Auditors	GLOBAL

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<sup>280</sup> The IIA is an international professional association representing over 245,000 internal auditors.

## Appendix 2

### Outreach Activities

In Q1 and Q2 of 2024, the IESBA undertook a global outreach campaign reaching over 7,000 stakeholders around the globe. This campaign included media interviews and broad international press coverage as well as the following virtual and in-person seminars:

- Two IESBA global webinars (February and March 2024)
- Webinars with UNCTAD Africa and UNCTAD ISAR (March 2024)
- Five in-person seminars, in Toronto, Brussels, Tokyo, Sydney and Melbourne (April-May 2024)

The IESBA gathered the following key comments from the Toronto in-person seminar:

- There was broad support for the IESBA proposals, including the profession-agnostic approach and the premise of the same high standard as for audits.
- Participants noted the existence of a voluntary and dispersed framework regarding sustainability assurance in Canada, with consequences in terms of oversight of SAPs who are not PAs.
- Regarding the proposed scope of the IIS in Part 5, participants queried whether the “publicly disclosed” criterion captures voluntary disclosures.
- There was support for the IESSA to address group sustainability assurance engagements, with an emphasis on ensuring coordination with the IAASB.
- On value chain entities (VCEs), participants questioned whether the proposed approach to independence considerations would impose a disproportionate burden and whether continuous assessment would be necessary as the value chain is constantly evolving.
- Participants noted the importance of implementation support and capacity building focused on non-PAs.

The IESBA gathered the following key comments from the Brussels in-person seminar:

- Ethics was recognized as a critical plank in the sustainability ecosystem.
- Participants expressed concerns regarding fragmentation between global and jurisdictional standards, especially in the European Union (EU) context.
- There was strong support for ethics and independence standards addressing group sustainability assurance engagements in parallel with calls for coordination with the IAASB.
- Participants had questions and concerns regarding independence considerations regarding VCEs, particularly the application of the “knows or has reason to believe” principle.
- In relation to NAS, there was a question as to whether all NAS-related proposals were necessary. The need for transitional provisions was also stressed.
- A view that there should be no conflicts of interest in relation to fees if the SAP does both the audit and the sustainability assurance engagement.

- Participants recognized that a number of the issues are early-year challenges and practice will evolve.

Specific comments from representatives of non-PA SAPs at the Brussels seminar included the following:

- There are a number of key differences between the IESBA's proposals and the standards that apply to conformity assessment bodies (CABs), including the following:<sup>281</sup>
  - The main goal of the IESBA's standards is to protect the public interest whereas the main goal of accreditation bodies is to provide a service to the client. For example, if a CAB has identified a suspected NOCLAR at the client, the responsibility of the CAB is to advise the client of the legal risks associated with the matter and to urge the client to resolve the issue, not to disclose it to a public authority unless legally required to do so.
  - The IESBA's proposals are quite prescriptive whereas the existing ethics requirements for CABs are principles-based. It is the responsibility of the accreditation bodies to interpret, apply and enforce the principles.
  - The focus of accreditation bodies is on the CABs and not so much on the individuals who perform the work within the CABs, as the accreditation bodies accredit the CABs, not the individuals. It is the responsibility of the CAB to ensure that the individuals who perform the work have the necessary competence and meet other ethics requirements of the ISO standards. The accreditation bodies will then carry out field inspections as part of their oversight and enforcement responsibilities.
  - There is no distinction between whether an entity is a PIE or non-PIE in the ISO standards. Instead, the approach is to alert the CAB that when a risk has been identified, the CAB take steps to address the risk.
  - There are differences in terminology, such as independence vs impartiality.
- It is important to recognize the value of the work performed by CABs and explore ways to achieve mutual recognition between auditors and CABs. Certifications performed by CABs have evolved from voluntary to mandatory engagements, to such an extent that nowadays an overwhelming majority of such certifications are mandated by law or regulation in many jurisdictions. Mutual recognition will help simplify sustainability assurance engagements and reduce the burden of duplication on the entity.<sup>282</sup>
- The terminology used in the proposals can be a challenge. For example, in some CABs, the individual practitioners are called auditors. So, referring to non-PA SAPs as non-auditors can create some confusion. If other SAPs are used on the engagement, it is also important to understand what standards and practices they follow in order to seek to establish equivalence of principles such as competence and impartiality. Addressing VCEs is also a complex area as the boundaries of sustainability reporting are not the same as those for financial reporting, where there are clear rules of consolidation.<sup>283</sup>

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<sup>281</sup> IAF

<sup>282</sup> IAF

<sup>283</sup> DNV

- Assurance in the areas of environmental and social accountabilities has existed for many decades in the CAB world. It was observed that CABs have long performed regulatory-driven engagements under ISO quality management standards (e.g., in the EU) and their publicly available reports can be used by audit firms as part of the assurance work with respect to the value chain.<sup>284</sup>
- It is very important for audit firms to consider existing practices of non-PA SAPs, not only in relation to greenhouse gas (GHG) assurance engagements but also in relation to assurance engagements on more qualitative information such as human rights and other social aspects. ISO standards provide guidance on how to assess qualitative information and claims.<sup>285</sup>

The IESBA gathered the following key comments from the Tokyo in-person seminar and meetings with representatives of several stakeholder groups, including investors and SAPs who are non-PAs:

- There was general support for the IESBA proposals, including the profession-agnostic approach.
- Participants expressed some concerns regarding implementation of the proposals by, and licensing and oversight of, SAPs who are not PAs. Participants expressed the need for guidance and capacity building, especially in the context of group engagements.
- Participants noted that VCEs are a developing area and that it is difficult to obtain credible information from VCEs and perform assurance procedures. They emphasized the need for coordination with the IAASB.
- Participants expressed some concerns about the complexity of the proposed NAS provisions and that NAS provided to a VCE may act as a barrier to the same firm being appointed as the SAP. Participants also stressed the need for guidance on the types of NAS that entities may need, especially regarding sustainability reporting.

Specific comments from representatives of non-PA SAPs at the Tokyo seminar included the following:

- Support for strengthening the NOCLAR communication provisions beyond consideration of communication from the SAP to the auditor, and vice versa, to a full requirement for such communication. It was noted that the relevant ISO standards already require the SAP to communicate suspected NOCLAR with the auditor.<sup>286</sup>
- A concern regarding confidentiality when communicating with the auditor or others about NOCLAR. In this regard, there was a question as to whether the SAP should not first inform the entity that the SAP intends to communicate the suspected NOCLAR to the auditor. There was a view that there should not be full freedom for the SAP to communicate corporate information to the auditor.<sup>287</sup>

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<sup>284</sup> IAF

<sup>285</sup> DNV

<sup>286</sup> Japan Accreditation Board

<sup>287</sup> Sustainability Accounting Co., Ltd.

- A suggestion to shorten the section on NAS in Part 5, at least for the first implementation of the new standards, to allow practice to evolve.<sup>288</sup>
- Support for the IESBA’s strategic partnership with IAF. There was a suggestion for further coordination of the proposed IESSA with ISO 14065, ISO 17029 and ISO 14066 to enhance consistency between the two sets of standards.<sup>289</sup>

The IESBA gathered the following key comments from the Sydney and Melbourne in-person seminars:

- Participants expressed concerns about the perceived overload of new sustainability-related standards.
- Participants focused their comments on the operability of the independence proposals regarding VCEs, for instance, the challenges in obtaining data, constant change in VCEs, the fact that many suppliers can be direct suppliers, etc.
- Participants expressed some concerns about how related entities would work in the context of sustainability assurance.
- Participants queried whether there would be additional guidance for non-PAs and urged the IESBA to consider a transition period and anticipate a PIR to respond to a rapidly changing landscape.

In February 2024, the IESBA was also represented at meetings of the IOSCO Sustainable Finance Task Force and Committee 1. The comment letter from IOSCO is published on the IESBA’s website.

In April 2024, at its inaugural meeting, the Stakeholder Advisory Council (SAC) to the IESBA and the IAASB provided the following key comments:

- There was support for the profession-agnostic approach, noting jurisdictional differences regarding voluntary versus mandatory sustainability assurance and enforceability regarding non-PAs.
- There was strong support for the IESSA to be equivalent to, and as robust as, ethics and independence standards for audits while there was recognition of the challenges regarding VCEs. There were mixed views on whether sustainability reporting would surpass financial reporting in terms of importance in the future.
- SAC members noted challenges for jurisdictional adoption, including differences in laws and regulations. They suggested capacity building for non-PAs could be addressed via stakeholder engagement, guidance, and implementation material, working closely with NSS and regulators, and leveraging SAC members.

In April-May 2024, the IESBA was also represented at the IFIAR Standards Coordination Working Group (SCWG) and Plenary meetings. The comment letter from IFIAR is published on the IESBA’s website.

In May 2024, at its meeting, the NSS Liaison Group provided the following key comments:

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<sup>288</sup> Sustainability Accounting Co., Ltd.

<sup>289</sup> Japan Quality Assurance Organization

- There was support for capacity building, emphasizing the partnership with the IAF, as well as concerns regarding the complexity and application of the standards by non-PAs.
- There were suggestions for further coordination with the IAASB, especially regarding groups and VCEs.
- There were queries regarding the relevance of the proposed specific NAS prohibitions and the determination of related entities in the context of sustainability assurance.