

IESBA Sustainability**Question 17 - Agree****Regulators and Oversight Authorities, incl. Monitoring Group members****UKFRC - United Kingdom Financial Reporting Council**

Yes.

Investors and Other Users**DIR - Daiwa Institute of Research Ltd**

Yes.

Public Sector Organizations**AGNZ - Office of the Auditor General of New Zealand**

Yes we agree that a financial statement auditor can also be a sustainability assurance practitioner and that any independence issues can be satisfactorily managed. It is common for an auditor to carry out other significant assurance engagements for the same entity. Any concerns over the level of fees are addressed through full disclosure (usually in the notes to an entity's financial statements) that describe the nature of the various assurance engagements and their associated fees. We would observe that a number of substantial assurance engagements are required of an entity's auditor by regulators.

GAO - US Government Accountability Office

We generally agree with the proposed approach.

UNCTAD - UNCTAD's African Regional Partnership

100% of the respondents agreed with the proposed approach to address independence issues between audit engagements and sustainability assurance engagements.

Independent National Standard Setter**APESB - Accounting Professional & Ethical Standards Board (Australia)**

APESB agrees that potential threats to the fundamental principles and independence may arise from fees charged to sustainability assurance clients. We recognise the risk to the objectivity of the sustainability assurance practitioner, particularly when a substantial portion of the fees is derived from sustainability assurance engagements.

APESB also supports the inclusion of provisions relating to long association with a client.

Professional Accounting Organizations (PAOs)**AIC - Asociacion Interamericana de Contabilidad (Inter-American Accounting Association)**

We agree with the approach proposed in Part 5 to address the independence issues that could arise when the sustainability assurance professional also audits the client's financial statements, particularly because of the sensitivity of fees for audit and sustainability assurance engagements, and the long association with the client, which are threat factors for loss of public confidence. In this regard, we understand that the IESBA ED's approach

to total fees, the proportion of fees for services other than sustainability assurance to sustainability covered by paragraph 5410.11 A1 of Part 5, Chapter 1, which requires a firm to perform both audit work and sustainability assurance work for a sustainability assurance client, paragraphs 410.11 A1 through 410.11 A3 in Part 4A apply in the context of fees charged by the firm and network firms to the sustainability assurance client. Where the firm is not engaged to perform audit work for the client, paragraphs 5410.11 A2 to A4 apply; we consider these provisions to be relevant to maintaining public confidence in sustainability assurance and other services such as financial statement auditing.

BICA - Botswana Institute of Chartered Accountants

- Agreeing with the proposed approach in Part 5 to address independence issues that may arise when a sustainability assurance practitioner also audits the client's financial statements is essential. Special attention to the proportion of fees for audit and sustainability assurance engagements, as well as a long association with the client, is crucial for maintaining objectivity and independence.

CFAR - Chamber of Financial Auditors of Romania

We agree with 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.

EFAA - European Federation of Accountants and Auditors for SMEs

We agree with 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.

In the EU a combination of prevailing practice, as reported in IFAC's State of Play publication, and the way in which most Member States appear to be transposing the CSRD, means that many, if not most, companies will use the same accountancy firm to provide sustainability assurance and the audit of their financial statements.

It is vital that the Code does not create barriers to financial statement auditors providing sustainability assurance to the same client. We believe that joint provision of these services enables the leverage of the technical assurance skills and competencies of professional auditors as well as their knowledge of company strategy, governance, business model, and risks, opportunities, and performance, in due course improving quality. This will be beneficial to the public interest while any independence threats arising from providing both assurance services would be kept at an acceptably low level. Furthermore, in the case of SMEs it is important that the ethical standards allow the same firm to provide both sustainability assurance as well as the audit so that SMEs may gain from synergies.

ICPAU - Institute of Certified Public Accountants of Uganda

We are of the view that practitioners may provide both financial statement audits and sustainability assurance engagements to the same client provided due diligence is considered to ensure the practitioner's independence during the performance of both engagements. Therefore, we suggest that the proposed standards reiterate this.

IICA - Institute of Indonesia Chartered Accountants

Yes

IPA - Institute of Public Accountants (Australia)

IPA generally agrees with 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.

MICPA - Malaysian Institute of Certified Public Accountants

We agree with the proposal.

Accounting Firms and Sole Practitioners

MOORE - Moore Global Network Limited

The main independence matters arising appear to be from fees and long association with a client. We believe that as both engagements are assurance engagements and threats to independence will not arise in the same manner as NAS. Therefore, we agree with the proposed approach in Part 5.

MU - Muhammad Umar - Mo Chartered Accountants

We concur that where an auditor provides sustainability services to the client, the firm should disclose the fees for such services as non-audit fees and consider applying safeguards regarding the proportion of non-audit to audit fees.

PKF - PKF Global

We agree with 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.

Academia and Research Institutes

NSU - Nova Southeastern University

All but one student provided positive feedback, with examples below. The student who opposed provided no meaningful support for her opinion.

- I agree with the views stated in Part 5 Section 410 about independence issues arising from the same auditor for sustainability assurance and financial audit, proportion of audit fees, and long association. The threat of being comfortable with one another may result in the auditor's complacency in uncovering the issues that may be finance- or sustainability-related. Continued disregard will lead to an aggravated problem. This has been one of the reasons why frauds endured before coming to light. Secondly, the proportion of fees must be clarified and duties spelled out between the auditor and the client, giving sustainability assurance equal attention and importance. While the IESSA cannot impose an engagement timeline between the firm and the client, the firm and client must take it upon themselves when to rotate auditors upon review of the threats of independence.
- Main issues arise from Audit and Assurance engagement being separate agreements and the current requirements of disclosing Audit Fees and not Assurance Fees. There is also the risk that the firm prioritizes one agreement over the other. Lower fees creates

the risks of not being able to execute the engagement with due care using all technical and professional required resources or in the depth as required. If the Audit firm is the source of both Audit Services and Sustainability Assurance, it should include in their risks assessment the proportion of those fees to the Audit Fees, if this proportion is large the IESBA have added a safeguard to name them necessary when respond to laws and regulations requirements. As of now, no threshold or guideline is provided for these fees, and this is, in my opinion, the main issue. Qualified expert opinions are hard to evaluate for those not familiar with the subject. Being like that, it might be that Audit firms, like mentioned above, make the major proportion of their Income from increased Sustainability Assurance Fees. For now, until regulation advances based on the actual practice, a solution could be to request an itemized bill to evaluate the reasonability of these fees, showing for example the charges for labor or wages, travel expenses incurred (if they were needed to travel to a site, state, region or country), Licenses and permits, etc. Of course, the evaluation of whether this itemized bill and the fees resulting are acceptable or not, is a judgement matter to each company's executives. Disclosing this itemized bill of Sustainability Assurance Fees in the notes to the SEC is also a recommendation of mine as an approach to form a national and international database that helps built an opinion on thresholds, maximum, minimum, medians and deviations. Another Threat is when the results on the Audit negatively impacts the Sustainability Assurance, or vice versa. When both services are performed by the same firm they might be tempted to alter one of the results to not lose the client. Ethical concerns will arise.

- It is extremely important to keep public trust and interest that sustainability assurance practitioners act ethically to keep engagements in financial statements with high independence standards. This will help investors, clients, customers, and employees to confidently rely on this information. The independence issues that could arise when the sustainability assurance practitioner also audits the client's financial statements, it builds pressure to breach the fundamental principles, conflicts of interest, quality management systems of firms and independence issues when a particular firm performs various projects, such as both audits and sustainability assurance engagements. IESBA considered that the audit and sustainability assurance engagements are still separate engagements, see subsection 5410.11. It is important for both engagement methods to address and name all threats.
- I agree with 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). This will enable strict compliance to work ethics and as well prevent interference or familiarity. However, I propose that an additional provisional clause be included that in any case where any form of dishonesty is detected on the part of the auditor or the provider of sustainability assurance service, a disciplinary measure in the form of disengagement of service should be considered.

Question 17 - Agree With Comments

Regulators and Oversight Authorities, incl. Monitoring Group members

ACRA - Accounting and Corporate Regulatory Authority (Singapore)

We support the suggested approach for handling potential threat of independence concerns when the SAP is also responsible for auditing the client's financial statements. Considering that both familiarity and self-review threats could exist in such a scenario, it is essential to give particular attention to the proportion of non-assurance fees and the long association with a client.

Paragraph 125 of the Explanatory Memorandum states that “The IESBA also considered 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 services to the client, Part 4A requires the firm to disclose the fees for such services as non-audit fees and consider applying safeguards regarding the proportion of non-audit to audit fees”.

In Singapore, our in-scope companies have the option to engage the same accountant SAP to conduct both statutory audits and climate assurance. If mandatory sustainability assurance fees are classified as non-audit fees, it may not be in line with the spirit of legislating such requirements. Labelling them as non-audit fees may also create confusion for those charged with governance, who are required to discuss the safeguards and reduce the threat, if any, to an acceptable level with the statutory auditors.

If the purpose of this classification is to assess the threat to the statutory audit independently from the sustainability assurance engagement, and vice versa, the IESBA may wish to consider creating a distinction between the financial audit fee and the sustainability assurance fee (within statutory fees category). This would provide clarity for SAPs and their clients, while maintaining the rigour in independence assessments.

BAOA - Botswana Accountancy Oversight Authority

We agree with the proposed approach as it provides guidance on safeguards to be implemented in the event the Sustainability Assurance Practitioner also audits the Client's financial statements, however, a more proactive approach should be taken by defining a threshold or fee cap which should be used as a guide, for example 15% of the total fees received by a Firm in line with the audit engagements.

NASBA - National Association of State Boards of Accountancy (US)

NASBA believes that if the sustainability work is part of the disclosures in the audited financial statements or their accompanying filing, it would make sense to look at the fees on a holistic basis. The fees for the audit and the sustainability work should be aggregated because, in essence, the fees are part of one engagement, and if the firm's independence is evaluated based on fees, it does not make sense to disaggregate those fees

SGX - Singapore Exchange Limited

Yes, with comments.

On fees, suggest that the firm performing both audit and sustainability assurance engagements for the same client additionally provide a clear and itemised breakdown of

the fees involved respectively. We believe this will help facilitate the setting of the proportion of fees as proposed by the IESBA.

Public Sector Organizations

UNCTAD - UNCTAD's Latin America Regional Alliance

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I Agree 60% of respondents

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I am not sure 20% of respondents

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I don't agree (please qualify) 20% of respondents

Independent National Standard Setter

NZAuASB - New-Zealand Auditing & Assurance Standard Board

We agree that threats to the fundamental principles and to independence might arise when the sustainability assurance practitioner also audits the client's financial statements. We agree that it is especially relevant regarding fees and long association with the client.

We support the additions to Part 4A because the considerations of fees and long association should include provision of sustainability assurance services and we agree that the same principles should be included in Part 5. However, we have specific concerns regarding the level of prescription for sustainability assurance engagements given that the regimes are still developing. We have included more about long association in question 18.

We welcome the disclosure of all fees paid to sustainability assurance practitioners but we have heard mixed views regarding proposed fee requirements in Part 5. These include:

- concerns that the section is too long and too detailed.
- concerns that fees for sustainability assurance might be much higher than audit fees,
- that fees might change or increase at some point with move from limited to reasonable assurance.
- fees might be not easily separated in cases of integrated reporting assurance.
- Concerns about where the fees should be disclosed by the assurance practitioner, if the disclosure is not required by the reporting framework.

We encourage the IESBA to be less prescriptive at this current stage and instead to emphasise threats arising from fees and how the threats can be addressed at the principles level.

Professional Accounting Organizations (PAOs)

CBPS-CFC-IBRACON - Comitê Brasileiro de Pronunciamentos de Sustentabilidade, Conselho Federal de Contabilidade and Instituto Brasileiro de Auditoria Independente

We believe that, in many cases, stakeholders and public interest may dictate that both services can be provided by the same practitioner. However, the financial statement auditor is required to disclose their fees, including fees for non-assurance services (NAS). We understand that fees for sustainability information assurance services should not be considered as NAS, as it can lead to confusion and misunderstanding of the independent auditor's work, given that some jurisdictions may be more restrictive in relation to the proportion of audit fees versus NAS fees. Because both services (audit and assurance) have similar ethics and independence requirements, the Code could explain and categorize such fees in a segregated manner so that users of the information can understand the total volume of fees that are for services that require the auditor independence.

CPAA - CPA Australia

With respect to fees, CPA Australia offers the following comments and observations:

The disclosure of fees paid by client entities for sustainability assurance engagements is not required under current sustainability reporting frameworks. This makes it challenging to expect that the sustainability assurance practitioner can demand such disclosure from its client, or that it is appropriate for it to make a disclosure in the absence of the client doing so.

Arguably, the level of fees paid by a sustainability assurance client might impact a sustainability assurance practitioner's performance of professional services, rather than the practitioner's "ability" to perform (refer to paragraph 5330.3 A1). The IESBA may wish to consider revising the wording of this paragraph.

The IESBA may wish to consider whether the term "public authority" has the same meaning across jurisdictions – refer to paragraph 5410.8 A1. In some jurisdictions, public authorities may operate on a commercial basis or have conflicts of interest as a regulator that is regulating a broad cross section of entities. Hence, a public authority may have an interest in the outcomes of the work performed by a sustainability assurance practitioner. The IESBA may wish to consider deleting the reference to a public authority or perhaps use alternative wording, such as "or other judicial body".

It is not clear that the IESBA is able to mandate the reporting of fees by a firm (refer to paragraph R5410.31), especially when they are not fees for which the firm is making payment. It is the client's responsibility. The IESBA should consider revising this paragraph to indicate that the firm should "consider" publicly disclosing fees. Alternatively, the IESBA might consider qualifying the requirement by stating that such disclosure should occur in accordance with jurisdictions' laws and practices.

No comments are offered with respect to long associations with the client.

CPAC - Chartered Professional Accountants Canada Public Trust Committee

The PTC agrees with the IESBA's proposals regarding long association with the client because it is appropriate to require an individual that is part of both the sustainability assurance team and audit team for the same client to rotate off both engagements as both are assurance engagements for which an equivalent level of independence is required.

However, stakeholders have expressed concerns with the IESBA's proposal regarding the proportion of fees for the audit and sustainability assurance engagements when the

sustainability assurance practitioner also audits the client's financial statements. We think that treating SAE fees in the same manner as fees for services other than audit seems inconsistent with the IESBA's objective for equivalency with audit engagements. The PTC observes that, when the sustainability assurance practitioner does not audit the client's financial statements, the IESBA is proposing that the ratio of fees for services other than sustainability assurance to the sustainability assurance fee should be evaluated, to determine the level threat to the sustainability assurance engagement. Conversely, when the sustainability assurance practitioner does audit the client's financial statements, the IESBA is proposing in revisions to paragraph 410.11 A2 that the ratio of fees for services other than sustainability assurance to the sustainability assurance fee, such as non-assurance services for example, would not need to be evaluated for the level of threat. We think that this approach might lead to different conclusions regarding the level of threats introduced by fees for services other than sustainability assurance depending on whether the sustainability assurance practitioner also audits the client's financial statements.

The PTC understands that the IESBA's intent is to require the firm to include the fees for SAEs as non-audit fees because, in jurisdictions that require the disclosure of fees, regulators generally mandate the disclosure of audit fees only. However, we believe that the regulatory framework for SAEs will evolve over time and encourage the IESBA to consider whether the proposal to include fees from sustainability assurance engagements with all other non-audit fees is the best approach to address threats posed by fees when the sustainability assurance practitioner also audits the client's financial statements.

ICAS - The Institute of Chartered Accountants of Scotland

Subject to any restrictions on services / fee multiples etc that may apply in this situation, in principle we do not see why there should be a conflict in relation to fees, especially as IESBA envisage the same independence standards applying to both engagements.

However, there could be a perception of a threat e.g. an adverse finding on the sustainability assurance engagement could threaten both engagements and vice versa. We therefore understand IESBA's observation in paragraph 125 that there might be threats 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.

We are also concerned that if the signing dates for both the audit and sustainability assurance engagements are not the same, this potentially could have an impact on the level of any threat that might exist to objectivity.

ISCA - Institute of Singapore Chartered Accountants

If the firm performs both audit and sustainability assurance engagements for the same client, it is required to disclose fees for sustainability assurance services as non-audit fees.

There is a perception that auditor independence is compromised where a large proportion of fees is generated from non-audit services such as sustainability assurance services, relative to audit fees. Hence, the auditor is required to consider safeguards to address threats to its independence associated with a large proportion of non-audit to audit fees.

We recommend that IESBA consider introducing the concept of "audit-related services" (ARS) in the Code to reflect non-audit services where the work is closely related to the work

performed in the audit engagement or SAE and include reporting required by law or regulation.

ARS will include sustainability assurance services where threats to auditor independence are clearly insignificant and ARS fees will be scoped out from the computation of non-audit to audit fees. This would avoid the situation where the client chooses another assurance provider over the auditor due to the perceived threat to auditor independence.

JICPA - Japanese Institute of Certified Public Accountants

We agree with 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.

However, we suggest the IESBA carefully consider an effective date and possible transitional provisions for a sustainability assurance practitioner to comply with provisions such as those relating to fees and long association with the client, because a sustainability assurance practitioner needs an established organizational structure and a sufficient preparation period to address the provisions. We also believe that a system for continuous monitoring is necessary for a sustainability assurance practitioner to perform a sustainability assurance engagement in compliance with the Code appropriately. Therefore, actions including step-by-step implementation of the IESSA according to the maturity of the practice for the purpose of securing a sufficient preparation period are important to achieve the goal of the IESBA's sustainability project.

In addition, paragraph 5410.11 A1 proposes that where a professional accountant performs both an audit engagement and a sustainability assurance engagement for the same client, the professional accountant applies the provisions set out in Part 4A and evaluates threats by comparing the ratio of fees for services other than audit to the audit fee. In this case, the sustainability assurance fee will be included in fees for services other than audit and an audit fee might be higher than fees for sustainability assurance engagements, and vice versa. Therefore, we suggest the IESBA revise the provisions set out in Part 4A and create three categories: an audit fee, fees for sustainability assurance engagements that meet the proposed criteria set out in paragraph 5400.3a, and fees for other services, in order for professional accountants to identify, evaluate and address threats appropriately in practice, based on the nature of services underlying the fee-related information.

SAICA - South African Institute of Chartered Accountants

SAICA agrees with the proposed approach however there may be a risk for self-review issues, but these could be mitigated through appropriate safeguards. We do not think that confidentiality and self-review threat will be affected by fee dependency. There is a possibility of fee dependency in smaller firms. In instances where the fee is greater for sustainability services than audit there might need to be prescribed percentages for assurance services. Self-interest threats may occur as a result due to the fees creating more pressure on PIEs.

We agree with the proposed approach for long association. With regards to the fees, the concern is that sustainability assurance engagements are not like other assurance engagements. Fees can be large and the sustainability engagement will be recurring as opposed to once-off.

SOCPA - Saudi Organization for Chartered and Professional Accountants

SOCPA agrees with 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.

However, the factors to be considered given in Section 410, that are relevant in evaluating the level of the self-interest threat that might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, is looked at from a single entity perspective. SOCPA believes the evaluation should be extended to a group entity perspective in order to ensure that the substance of the proposed approach is not lost. There could be situations in which a firm or network firms provide audit services to several entities in a group of companies and sustainability assurance to several other companies in the group. If the proposed approach does not address such scenarios, the independence rules could be exploited.

Accounting Firms and Sole Practitioners

BDO - BDO International Limited

In general, BDO agrees that there are certain independence matters that will be present and need to be considered when a firm provides both the audit and the sustainability assurance services.

For long association BDO also agrees with the IESBA on all the proposed amendments.

For the independence matters related to the proportion of fees, BDO agrees with the IESBA that there are factors that may have an influence, since the sustainability assurance engagement is still seen as a separate engagement in many jurisdictions. BDO however believes that there will not be any independence matters related to fees, when the same firm is both the financial statement and the sustainability auditor under proposed part 5.

Recommendation:

The concern that BDO has, is that a sustainability assurance engagement isn't like any other assurance engagement, both in the size of its fees and that it is recurring, as well as its close connection to the audit engagement. BDO believes that most clients will prefer to use their auditors to provide sustainability assurance. BDO therefore recommends that there should not be any prohibitions, thresholds or fee caps, and that the sustainability assurance fees should, in accordance with Part 5 of the IESBA Code, be considered alongside the audit fees, for purposes of the fee proportion calculations. This will also align with the recommended renaming of sustainability assurance engagements referred to in Part 5 to 'sustainability audit engagements' (as explained in our response to question 5 above).

PwC - PricewaterhouseCoopers International Limited

Yes, with comments below

As a general principle we agree that it is important, when considering any public interest assurance engagement, to have considered the potential for self-interest threats and the proportion of fees earned from other services, and to have considered familiarity threats arising from long association.

However, we express a general concern that, despite a minor proposed amendment to 410.11, the proposal (see 5410.11 A1) implies that there is an additional threat to independence arising from the fact that one firm may be conducting both the audit of financial statements and the sustainability assurance work. We do not believe that this is appropriate and goes against the fundamental goal of equivalence to the audit independence standards. In substance it is “one” independent relationship with an entity. This seems to conflict with the comment in the EM, which says “In circumstances where a large proportion of fees, relative to the audit fee, is generated by the provision of a sustainability assurance service in compliance with Part 5, the auditor might conclude that the level of threats is at acceptable level, especially if the auditor’s performance of the sustainability assurance engagement is required by law or regulation”.

The interconnectedness of the financial and sustainability information may even suggest a public interest benefit in the same firm performing both assurance engagements. Indeed, some jurisdictions are contemplating that statutory auditors may be required to also perform the sustainability assurance. Furthermore, many frameworks are viewing these as an integrated report thus strengthening a view that independence considerations should be looked at collectively.

RSM - RSM International Limited

We agree with the proposed approach in Part 5 to address the independence issues that could arise when the SAP 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). However, the consideration of fees in ED-IESSA does not appear to include a situation where the sustainability assurance engagement is required by laws or regulations, and some jurisdictions may require or allow both the sustainability assurance engagement and the audit to be performed by the same PA as the auditor and SAP. We recommend that the IESBA add this scenario to ED-IESSA.

We are also supportive that there does not appear to be any prohibitions.

Academia and Research Institutes

AFAANZ - The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand

Yes, with comments.

The proposed approach is that fees for sustainability services should be disclosed by the firm (i.e., the sustainability assurance practitioner) in addition to audit fees (EM Para 125). The firm should also consider applying safeguards regarding the proportion of non-audit to audit fees (Para 125). The EM also states that the auditor might conclude that the level of threats is at an acceptable level, even when the sustainability assurance service generates a large proportion of fees relative to the audit fees.

We agree that fees should be disclosed, that safeguards need to be taken into account, and that a cap on fees is not appropriate. More details and supporting references are provided below. However, we have reservations. Specifically, it is not clear what form the disclosure of fees is intended to take. Is it expected that each practitioner should publish a report providing this information for each client? Or is the reporting intended to be for each firm as a whole? How are these reports to be made available? In the latest transparency

reports published by Big 4 firms in Australia, none of them have separately disclosed revenue received from sustainability assurance or reported their revenue at a client level. The sustainability assurance revenue can be aggregated into the amount of revenue from “other assurance and non-audit services to audit clients”. More guidance and regulations are required with respect to disclosures of sustainability assurance fees.

It is also important to clarify in the standards how sustainability assurance fees should be disclosed in clients’ financial statements when a firm provides both financial statement audits and sustainability assurance for the same client. Based on observations from 2012-2016, fees arising from sustainability assurance can be disclosed in either NAS or audit-related services fees in the client’s financial statements (Lu, Simnett & Zhou 2023). It was also found that clients are less likely to obtain sustainability assurance from their incumbent financial statement auditor when the NAS fee ratio is high. However, this impact does not hold with the audit-related fees ratio (Lu, Simnett & Zhou 2023). This result implies that the disclosure category of sustainability assurance fees affects the perception of independence of auditors and/or sustainability assurance providers.

The literature lends support for the joint provision of sustainability assurance by incumbent auditors. More than half of sustainability assurance engagements in Australia are obtained from the same firms that provide financial statement audits (Ruiz-Barbadillo & Martínez-Ferrero 2021; Simnett et al. 2024). This joint provision is associated with metrics suggesting better quality of financial statement audits (Maso et al. 2020; Lu, Simnett & Zhou 2023) and sustainability assurance (Ruiz-Barbadillo & Martínez-Ferrero 2020). The archival evidence supports the clients can benefit from the joint provision because of the knowledge spillover between the sustainability assurance team and audit engagement team (Al-Shaer 2020; Maso et al. 2020; Lu, Simnett & Zhou 2023).

Regarding circumstances where there is a large proportion of sustainability assurance fees relative to audit fees, Lu, Simnett & Zhou (2023) find that clients are aware of the perceived independence concerns and that these deter them from obtaining sustainability assurance from incumbent auditors when they have a higher proportion of non-audit services fees, including sustainability assurance fees, to audit fees. When sustainability assurance fees are included in non-audit services (NAS) fees, auditors’ independence has been assessed by the assurance providers or their clients by considering the proportion of NAS fees to audit fees in accordance with Section 410 of the Code. Given the positive impacts of the joint provision found in the literature (Maso et al. 2020; Lu, Simnett & Zhou 2023), it is reasonable not to set up an additional fee cap when auditors provide sustainability assurance.

However, more evidence is needed to support the proposed amendment in para 127 of the EM that “[i]n circumstances where a large proportion of fees, relative to the audit fee, is generated by the provision of a sustainability assurance service in compliance with Part 5, the auditor might conclude that the level of threats is at acceptable level”. This amendment may reduce the perceived independence concerns with regard to NAS fees, and it is important that these are taken into account.

Under paragraphs R410.15 and R410.16 in Section 410, assurance providers are required to consider the proportion of total fees received from an audit client, to consider fee dependence and avoid fees being more than 15% of the total revenue of the assurance

provider. When auditors provide sustainability assurance to their audit clients, they need to include sustainability assurance fees as a part of the total fees received from an audit client when assessing their fee dependence. Lu, Simnett & Zhou (2023) report that when auditors provide sustainability assurance to an audit client, higher fee dependency arises primarily from sustainability assurance fees. The requirement implies that the fee dependency assessment required in Section 410 is more stringent for the audit firms that provide both audits and sustainability assurance to the same clients, relative to those who provide audits only, as they are more likely to reach the threshold by considering audit fee, sustainability assurance fee and other fees. However, we are not aware of any research examining the validity of the 15 percent threshold beyond what has been discussed in Hay (2017), which noted that dependence, and whether the restriction to 15 percent was the appropriate level, had not been examined by research.

DIRC - Deakin University Integrated Reporting Centre

We agree with 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.

However, we also believe that the standard should make clear that it is not suggesting that the financial statements auditor should not provide the sustainability assurance to the same client, emphasising the significant advantages of this occurring including the need for the auditor / assurance practitioner to only develop the required understanding of the business once with a dual purpose in mind – as planning information for the financial statements audit and as sustainability information for the sustainability assurance engagement. The other benefit is optimising the cost of the audit and assurance engagement, and the amount of management time required to be devoted to audit and assurance.

As mentioned in our response to Question 3, there is a trend towards a more integrated approach to assurance, with over 20,000 entities around the world expected to have the description of their business in corporate reports independently assured in 2024 and beyond. In time, we would expect to see a move towards one audit / assurance report, an integrated assurance report, being included in annual reports.

Question 17 - Disagree

Regulators and Oversight Authorities, incl. Monitoring Group members

IRBA - Independent Regulatory Board for Auditors

Our concern lies with the current approach to assessing independence. The existing Part 4 describes many facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence. For the purpose of assessing threats created by fee-dependency, it distinguishes between audit and non-audit services (including sustainability assurance engagements). It also specifically identifies non-assurance services (excluding sustainability assurance services) as professional activities that may create threats to independence. It does not however, provide guidance on applying the conceptual framework where the provisions of other assurance services may create threats to auditor independence or vice versa. Our view is that guidance is

required to address threats to auditor independence that may arise from the provision of other assurance services also, to enable a comprehensive consideration of all services provided by the firm or network firm from an auditor perspective and vice versa from a sustainability assurance practitioner perspective. For example, threats to independence that may arise because of how the sustainability information interacts with financial information or disclosures in the financial statements.

Concerning fee proportionality:

Our view is that fees for sustainability assurance engagements need to be disclosed separately i.e., separated from non-audit fees (which include fees from other assurance services) and audit fees, because:

Sustainability assurance is distinct from traditional audit services and other non-audit services and are held to the same higher standards of ethics and independence as audit services. It is in essence a “hybrid” between an audit and other assurance service.

Separately disclosing the sustainability assurance engagement fees would simplify the evaluation of independence threats and make it clearer for firms to assess their compliance with independence requirements. It could help to avoid confusion and ensure that the fees related to sustainability assurance engagements and the independence threats that may be created by fees are considered on their own merits.

As sustainability assurance engagements are expected to grow in scope and importance, including increased fees, separating the fees would position the service providers to better accommodate future developments without conflating these engagements with other non-audit services.

Separately disclosing the sustainability assurance engagement fees would serve the public interest by providing greater transparency about the nature and extent of services provided by firms. This transparency could enhance stakeholder trust in the independence and objectivity of the assurance provided.

We disagree with the conforming amendments made to paragraph 410.11 A2. The mere fact that law or regulation requires both engagements to be performed by the same firm or network firm does not influence independence given independence conceptually comprises independence of mind and independence in appearance, neither of which are influenced by law or regulation.

Regarding long association, we reiterate that a comprehensive assessment of association with the client through any and all services provided is required, not limited only to audit and sustainability assurance engagements. The specific reference to “...a combination of audit and sustainability assurance engagements for the same client, over a long period of time...” in paragraph 540.2, excludes long association threats that may arise through the provision of other services. This is supported by the extant Section 940, Long association of personnel with an assurance client, that identifies that a familiarity threat may also be created through long association with an assurance client.

In summary, we find that the combination of independence guidelines across different parts of the IESBA Code may not be synergistic because of the introduction of the sustainability independence requirements in Part 5.

Professional Accounting Organizations (PAOs)

ACCA - Association of Chartered Certified Accountants

We do not agree with 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). As currently drafted, the proposal implies that two different assurance engagements provided to the same client could create a threat to independence for one another which is not, in our view, appropriate. We therefore propose deletion of paragraph 5410.11 A1 which states that "where a firm performs both an audit engagement and a sustainability assurance engagement for a sustainability assurance client, paragraphs 410.11 A1 to 410.11 A3 in Part 4A apply in the context of the fees charged by the firm or network firm to the sustainability assurance client..."

We also note that in evaluating long association, the practitioner will need to consider prior services. For example, if the sustainability assurance leader was formerly an audit partner on the same client, the threat of long association needs to be noted and managed, so we suggest an example is provided to illustrate this clearly and further guidance is provided to ensure it is the auditor that also carries out the sustainability assurance. In relation to fees from the same client for both engagements, we note the proportion of fees may raise some issues for example if national laws and regulations require separate disclosure of 'Audit Fees' and 'Non-Audit Fees'. During our outreach a concern was raised that there may potentially be a loss of assurance providers because of this restriction (which is not limited now for sustainability assurance in general).

AE - Accountancy Europe

No, we believe that the IESBA should reconsider proposed provisions regarding cases where a firm performs both audit and sustainability assurance engagements for the same entity. In fact, complying with a requirement in Parts 1 to 4A would achieve compliance with the corresponding requirement in Part 5, and vice versa.

We also disagree with IESBA's premise that a firm providing these two services should consider applying safeguards regarding the proportion of non-audit, including for sustainability assurance, to audit fees. In cases where the sustainability assurance engagement is required by law or regulation, the notion that the proportion of fees for the audit engagement to the fees for sustainability assurance may affect the firm's independence becomes void. PAs should evaluate the level of threats considering the proportion of fees for assurance services, including audit, to fees received from non-assurance services.

It should also be noted that some provisions of the Part 5 will not be relevant when the same firm performs the financial statements audit of the entity. For example, when a firm provides sustainability services to the audited entity, Part 4A requires the firm to disclose the fees for such services. There are similar requirements for public disclosure of fee-related information in section 5410 and we are not sure how these will work together with corresponding requirements in section 410.

AICPA - American Institute of Certified Public Accountants Professional Ethics Executive Committee

Overall response: No.

Detailed comments: Refer to our concerns and objections related to the PIE requirements as discussed in response to question 9. In addition, given that independence requirements for sustainability assurance engagements are intended to be equivalent to those for financial statement audits, considering the audit fees together with the sustainability assurance fees (regardless of whether the reporting is integrated) in relation to all other fees in order to identify and evaluate threats would be more appropriate. In other words, when a practitioner complies with all other independence requirements with respect to each engagement, it is not clear as to what additional threats need to be addressed by comparing the engagement fees of each engagement against the others.

CAANZ - Chartered Accountants Australia and New Zealand

In relation to fees, we disagree that there are potential threats to independence related to the provision of both the financial statement audit and sustainability assurance engagement by the same firm. In Australia, and possibly other jurisdictions, the sustainability assurance engagement is to be conducted by the financial statement auditor. In practice, it may not even be possible to delineate fees between the two engagements because they are treated as a single service.

We acknowledge this view is recognised in the amendments proposed to paragraph 410.11 A2. However, we are concerned that the ED seems to treat sustainability assurance engagements as non-assurance services and that this attitude will be more broadly adopted by investors, and the media etc, creating an artificial issue around independence in appearance (perceived independence). We recommend a wholesale review of the extant and proposed fee provisions through a lens of combining the fees for the financial statement audit and sustainability assurance engagement and comparing this to the fees for non-assurance services. In terms of assessing fee dependency – it follows the consideration should be of the total fees generated from financial statement audit and the sustainability assurance engagement combined.

We are concerned about proposed paragraph R5410.31 that requires the firm providing the sustainability assurance to publicly disclose information regarding fees for PIEs (if the entity does not make the relevant disclosures). It is unclear how such a requirement is intended to be operationalised. The sustainability assurance practitioner's only mechanism to make such public disclosures is in the assurance report but requiring a sustainability assurance practitioner to disclose 'new' information in their assurance report would not be appropriate.

There is an absence of clear and consistent requirements for sustainability reporting preparers in relation to disclosure of fees in relation to sustainability assurance engagements. We believe that any disclosures should be driven by sustainability reporting standards, and therefore we recommend the IESBA does not mandate such disclosures in the Code.

Some accounting standard frameworks in some jurisdictions require disclosure in the financial statements of fees for audit firms' services. In such jurisdictions, the only way that fees for the sustainability assurance engagement would be disclosed by a PIE is if the same

firm conducts the financial statement audit and the sustainability assurance engagement. Even then the disclosure will be in the financial statements, not the sustainability report, so there are questions over its relevance for users of the sustainability information.

With regards to the proposed long association provisions, the coordination and management of auditor rotation requirements is already time consuming and costly for firms, and the proposals will only increase this complexity further. We recommend the IESBA clarifies whether they are intended to be applied retrospectively or prospectively from the proposed effective date.

We also note that some of the proposed and/or amended definitions for certain roles are inconsistent between financial statement audits and sustainability assurance engagements, for example:

Engagement partner – does not have the reference to “public sector equivalent” that the definition of “Engagement leader” has, but it may also apply.

Engagement leader – the addition of the words “appointed by the firm” could cause confusion as they are not in the definition of “Engagement partner”.

CAI - Chartered Accountants of Ireland

We believe the matter of whether a sustainability assurance engagement is categorised as an audit-related or “other assurance” service is best left to the mandates of the laws and regulations in a jurisdiction. In our response to question 15 we highlighted the example in the EU where legal provisions allow a firm to disregard sustainability assurance engagements provided in accordance with the CSRD in calculating the total value of non-audit services provided by that firm.

Notwithstanding that sustainability assurance engagements will initially seek to provide limited assurance, this will evolve eventually to provide reasonable assurance, similar to audit. Also, the strong public interest protections including robust sustainable assurance frameworks being developed along the same lines as those required to be applied to audits, as well as the similar high ethical standards, indicates that the same level of threats to independence that may arise through the provision of traditional NAS are at a lower level with regard to sustainability assurance services.

While we support the concerns raised by the IESBA in the Explanatory Memorandum regarding potential threats to independence related to the provision of both the audit and sustainability assurance engagements by the same firm, we believe these are wide-ranging and impact all the fundamental principles, and applying the conceptual framework, per Section 5120, will be an appropriate response in most cases.

CNCC-CNOEC Compagnie Nationale des Commissaires aux Comptes and Conseil National de L'Ordre Des Experts-Comptables

No, we totally disagree, and we have a very strong concern with this section, which is an absolute deal breaker for us, regarding this ED.

Paragraph 5410.11 A1 of the ED states that “where a firm performs both an audit engagement and a sustainability assurance engagement for a sustainability assurance client, paragraphs 410.11 A1 to 410.11 A3 apply in the context of the fees charged by the firm or network firm to the sustainability assurance client [...]”

We are in total disagreement with this statement which implies that two different assurance engagements provided to the same client could create a threat to independence for one another, and we consider the ED to be fatally flawed on this issue.

Two different assurance engagements provided to the same client cannot create any threat to independence for one another since they both require to be independent, under the same rules and the same code.

This is an issue we discussed at length in the EU during the legislative process of the CSRD, and both the European Parliament and the European Council of Ministers concluded that there was absolutely no problem of independence in the provision of statutory audit and sustainability assurance to the same client by the same firm. And this, even if the respective fees are unbalanced.

In fact, the primary route provided in the CSRD, is the provision of sustainability assurance to an entity by its own statutory auditor. It is only a Member State option in the CSRD to allow another auditor than the statutory auditor, or an IASP, to provide sustainability assurance to an entity.

In addition, in the EU, the provision of sustainability assurance to an audit client is not counted in the calculation of the 70% cap for NAS.

Even the IESBA Code of Ethics has never implied so far that there could be problem of independence in providing different assurance engagements to the same client. It is the provision of non-assurance services to an audit client that can create a threat to independence, not the provision of different assurance engagement.

We therefore request the IESBA to delete the first sentence of paragraph 5410.11 A1.

GAA - Global Accounting Alliance

The proposal in section 5410 (Fees) appears at odds with the development of sustainability assurance, and the evolving regulation. The market is such that the financial statement auditor should reasonably be able to accept a sustainability assurance engagement and it is unclear whether the associated fee, in the GAA members' view, is to be treated in the same manner as audit fees and not as fees for other services. I believe it important that the IESBA clarify the issue and thus work towards dispelling any such perception.

HKICPA - Hong Kong Institute of Certified Public Accountants

Feedback from local stakeholders indicates that the concern arising from, for example, the threats created by a large proportion of fees charged for sustainability assurance engagements compared to the audit fee is likely to be low as the sustainability assurance fee is relatively low in the current market.

ICAEW - Institute of Chartered Accountants in England and Wales

We note that the consideration of fees does not include circumstances in which the Sustainability Assurance Engagement is required to be performed by laws or regulations. There may be some jurisdictions which require or permit the same firm to undertake both the audit and Sustainability Assurance Engagement of the same entity. The IESSA does not provide guidance in such a scenario. We note that the proposed principles may require

local action to resolve potential issues concerning existing fee caps that could unintentionally affect the market for sustainability assurance services.

However, it is worth noting that the extant IESBA code does not consider that assurance engagements and fees give rise to threats to the independence of the auditor (for example, section 600 refers to the provision of “non-assurance services”) and therefore we do not agree with the proposals relating to fees where the same firm provides both the audit and sustainability assurance engagement. In our view proposed paragraph 5410.11.A1 should be deleted as the provision of audit and assurance services does not give rise to a threat to independence for either service. If IESBA is concerned about total fees for the two services, this may be more appropriately considered under fee dependency considerations.

Given that auditors of financial statements are able to provide high-quality, independent, external assurance of sustainability disclosures to the same entity, we consider that the requirements and guidance within the Code should not create unnecessary barriers to their ability to do so.

IDW - Institute der Wirtschaftsprüfer (Germany)

We strongly disagree with the proposed approach whereby IESBA clearly assumes that a self-interest threat is created when a financial statements’ auditor accepts a sustainability assurance engagement.

As pointed out in our cover letter, we do not support the first sentence of paragraph 5410.11 A1, which refers an auditor engaged to perform a sustainability assurance engagement for the audit client to 410.11.A1 – A3 of Part 4A in the context of fees charged by the firm and network firms to the sustainability assurance client. In our view this reference is not justified, and sustainability assurance should not be viewed as a service other than audit for the purposes of calculating the ratio of fees for services other than audit to the audit fee.

We would also like to point out that when the financial statement auditor also performs the sustainability assurance engagement for the same client this may also have a positive impact on the quality of the audit, since the knowledge of the entity its environment and internal controls relevant to reporting will be broadened.

IFAC - International Federation of Accountants

In IFAC’s Vision for High-Quality Assurance of Sustainability Information we set out, based on stakeholder engagement, what we believe are best practices for high-quality assurance of sustainability information. This includes the performance of both financial statements audits and sustainability assurance by the same firm which will yield substantial benefits from increased familiarity with an entity’s strategy, governance, business model, risks/opportunities, and performance—maximizing value to companies and their stakeholders. We strongly oppose any rules that would discourage firms or companies from engaging in both services. This includes overburdensome or unresolvable independence rules and classification of sustainability assurance fees as non-audit/non-assurance fees. This is a stance that is supported through activity we see.

We are concerned that paragraph 5410.11 A1 of the ED – which refers to paragraphs 410.11 A1 to 410.11 A3 in Part 4A where a firm performs both an audit engagement and a sustainability assurance engagement – creates the perception that the performance of both an audit engagement and a sustainability assurance engagement would create a self-

interest threat. Paragraph 410.11 A1 states that “the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services” and that “a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor’s independence.”

The ultimate goal of sustainability assurance should be to achieve reasonable assurance. It is expected that fees associated with reasonable assurance of sustainability information will be comparable to fees associated with the audit of financial information, if not greater. We believe this would create a challenge for firms applying paragraph 410.11 A1. And while paragraph 410.11 A2 specifies firms should consider “whether law or regulation mandates the services to be performed by the firm” when determining the level of threat, not all sustainability assurance will be mandatory and sustainability assurance would still be considered a threat – albeit a low-level threat. We recommend the IESBA state affirmatively that fees associated with sustainability assurance engagements are not a threat to independence and address how firms should deal with sustainability assurance fees when assessing total fees. For example, IFAC supports the EU’s decision to exclude fees paid for the assurance of sustainability reporting from the calculation of the 70% limit for non-audit services.

Where the same practitioner is providing two assurance services (namely a financial statements audit and sustainability assurance in this case), reciprocal threats to independence do not exist. Both engagements require the practitioner to be independent under the same rules and the same Code. This is very different to when an assurance service is being provided alongside NAS services where the threats can be more significant. Concerns around fee allocations between assurance and other services are clearer, but the split between two assurance services would not be as important to safeguard independence, and this is even more the case where each assurance service provides the same level of assurance (reasonable). It may also be challenging to separate these fees, especially where some procedures in both engagements may be contemporaneous giving rise to efficiencies.

Where long association is concerned, not all jurisdictions see long association as an issue. Rotation within firms may be a more appropriate approach than requiring change of firms. Changes in provider often result in the greatest risk for assurance engagements as securing quality in an efficient way is difficult without building upon existing knowledge. This is an area where effective safeguards such as annual assessment of auditor performance with mandatory in-firm rotation can be put in place to mitigate risks.

IWP - Institut Österreichischer Wirtschaftsprüferinnen

No, we fundamentally disagree with IESBA’s view that implies that two different assurance engagements provided to the same client could create a threat to independence for one another. Two different assurance engagements provided to the same client cannot, conceptually, create any threat to independence for one another since they both requires to be independent. This was discussed in depth in the course of the EU legislative process, and both the Council and the Parliament concluded that providing both financial audit and sustainability assurance does not create any independence threat.

This is also underpinned by the EU legislators' considerations with respect to the audit fee cap in the EU (CSRD, recital 78): "To ensure the independence of the statutory auditor when carrying out a statutory audit, that Regulation establishes a limit concerning the fees for other services that the statutory auditor can obtain. It is important to clarify that the assurance of sustainability reporting should not count in the calculation of that limit."

For the reasons outlined in our response to Question 9, we also don't agree with differentiating whether the financial audit and sustainability assurance client is a PIE or not, for example in the context of rotation requirements to address threats from long association with the client.

Familiarity threats in financial audit primarily arise from "operational blindness" after having been responsible for the audit for a number of years. This does not apply in the – presumably rare – cases where a sustainability auditor moves to financial audit or vice versa as these are different disciplines with different counterparties at the client and under different standards; such cases need to be assessed under their individual circumstances under general rules anyway. The much more relevant situation for sustainability assurance will be that the sustainability assurance provider may have been advising the client in sustainability related matters and establishing sustainability reporting or elements of it from scratch over a number of years before the start of the engagement period.

KICPA - Korean Institute of Certified Public Accountants

The IESBA's proposed approach is to develop independence standards for sustainability assurance engagements that are equivalent to those applicable to the audits of financial statements. However, when a PA performs both an audit of financial statements and a sustainability assurance engagement for the same client, the proposed approach described in the above is not consistent with the requirement ((ED paragraph 5410.11 A1) to evaluate the threat to the auditor's independence, by considering the proportion of fees for services other than audit (including sustainability assurance services) relative to audit fees. This provision may send a wrong signal to stakeholders that the public interest is less important in sustainability assurance than in audits of financial statements. Therefore, the KICPA proposes that the IESBA should provide a guideline to exclude the fees for sustainability assurance engagement from the fees for services other than audit in order to evaluate the threat to independence in applying Paragraphs 410. 11 A1~ 410.11 A3 under Part 4A, if the firm provides both the audit and sustainability assurance services to a client (Please see the EU Directive 2022/2464. Fees for sustainability assurance service is not added to the fees for services other than audit, for the purpose of restricting the proportion of non-audit service fees relative to audit service fees in accordance with Audit Regulation (Regulation No 537/2014)).

MIA Malta - The Malta Institute of Accountants

Whilst agreeing that the two types of engagements may be considered as separate engagements, MIA does not agree that fees from sustainability assurance engagements should be considered as non-audit fees.

MIA-Malaysian - Malaysian Institute of Accountants

We express a general concern that, despite proposed amendments to paragraph 410.11, the proposal (see paragraph 5410.11 A1) implies that there is an additional threat to

independence. We do not believe that this is appropriate and goes against the fundamental goal of equivalence to the audit independence standards. In substance, for such cases there is “one” independent relationship with an entity. This seems to conflict with the Explanatory Memorandum paragraph 127. The interconnectedness of the financial and sustainability information may even suggest a public interest benefit in the same firm performing both assurance engagements

PAFA - The Pan-African Federation of Accountants

We do not agree with the proposed approach. Our concern lies with the current methodology for evaluating independence, which is primarily outlined in Part 4. While Part 4 delineates various facts and circumstances that may create threats to independence, it predominantly focuses on distinguishing between audit and non-audit services, including sustainability assurance engagements. However, it fails to provide adequate guidance on how to apply the conceptual framework when other assurance services may potentially create threats to auditor independence or vice versa. We believe that comprehensive guidance is necessary to address threats to auditor independence arising from the provision of various assurance services, enabling a thorough consideration of all services provided by the firm or network firm from both an auditor and sustainability assurance practitioner perspective.

WPK - Wirtschaftsprüferkammer (Germany)

Audits of financial statements as well as sustainability audit engagements are both assurance engagements for which almost the same ethics, including independence, provisions apply. Furthermore, it is to be expected that the auditor of the financial statements will also be the sustainability assurance practitioner for the same client in a large number of cases, because national legislation either mandates or at least allows such combination in many jurisdictions. It is essential that ethics, including independence, provisions should not create any major hurdles to the combination of both assurance services.

Consequently, the ratio of fees for the sustainability assurance engagement and for the audit of the financial statements should not be considered in the evaluation of threats as proposed in 5410.11 A3 and 410.11 A1 to A3, respectively, for both services separately. Otherwise, the fee for the one service could always be considered to be a potential threat for the other service, depending on which of the two fees is higher. The respective provisions in Part 5 and Part 4b should be amended accordingly.

Accounting Firms and Sole Practitioners

Assirevi - Association of Italian Audit Firms

We disagree with the proposed approach in relation to the proportion of fees. It is inconsistent with the approach adopted by the IESBA in terms of equivalence and completely disconnected from the intention to elevate the ethics and independence requirements applicable to sustainability assurance to the same level of those applicable to audit and review. It also appears that IESBA intends to embed in Part 5 a mechanism to limit the ability of the professional accountant to serve in both roles as auditor and as sustainability assurance provider; this is outside the remits of the IESBA. We believe that

the approach must be revised by considering the fees from sustainability assurance of the same nature of those from audit and review.

In fact, given the main objectives of the IESSA and, in particular, the approach used in the ED to maintain the equivalence of the ethics (including independence) provisions between the sustainability assurance engagements and audit engagements, we believe that no self-interest threats exist and that sustainability assurance fees should be considered like audit and review fees for the purposes of the fee proportion calculations. Therefore, we don't support the proposal of IESBA to apply the provisions in Section 410 in Part 4A of the extant Code regarding the evaluation of the threats created by the proportion of fees for services other than audit, including sustainability assurance engagements, to the audit fee.

For long association with the client, we agree with the IESBA proposal. Indeed, this approach is consistent with the equivalence principle and the approach adopted for the fee should be applied in the same way.

DTTL - Deloitte Touch Tohmatsu Limited

Deloitte Global does not agree with the provisions relating to fees for the audit and sustainability assurance engagements and we have the following specific areas of concern:

The proportion of fees for the audit and sustainability assurance engagements

If sustainability assurance is to be treated for independence and ethics purposes as equivalent to a financial statement audit, then the fees should also be treated equivalently. Deloitte Global urges the IESBA to reconsider the notion that the proportion of fees for the audit engagement compared to the sustainability assurance engagement may affect the firm's independence when a firm is providing both services. This premise challenges the reality of increasing integration between financial reporting and sustainability reporting, where both the audit and sustainability assurance are performed in accordance with equivalent independence standards. It is illogical to imply the threats to independence resulting from the auditor performing sustainability assurance work at an audit client are the same as the threats from providing non-assurance services.

We encourage the IESBA to consider how other standard-setters treat the proportion of fees for audit and sustainability assurance engagements and its impact on a practitioner's independence. For example, Article 4 of the Regulation (EU) 537/2014 excludes sustainability assurance fees from the fee cap for non-audit services, thereby recognizing that such fees do not create a self-interest threat when the sustainability assurance engagement is performed by the statutory auditor.

We also suggest that this subsection be re-titled to "Total Fees – Proportion of Fees for Services Other than Sustainability Assurance and Audit to Sustainability Assurance and Audit Fees" and to consider fees for audit, sustainability assurance and non-assurance fees, at a minimum, as separate categories. Conforming amendments should also be made to paragraphs 410.11 A1 to 410.11 A3.

Transparency of information regarding fees for sustainability assurance clients that are PIEs

The provisions in paragraphs R5410.23 and R5410.25 regarding the communication and disclosure of fees to those charged with governance ("TCWG") and in paragraph R5410.31

as it relates to public disclosure of fees for a sustainability assurance client that is a PIE overlap with the extant Code. This overlap makes the required fee disclosures confusing and the requirements inconsistent if the firm performs both the financial statement audit and sustainability assurance engagement.

For example, there is no definition of “other services” in the proposed IESSA, so these provisions could require the firm to include the fees for the audit of financial statements in the fee disclosure for all other services if the firm performs both the audit and sustainability assurance engagements. Part 4A would require the firm to communicate the audit fee to TCWG (paragraph R410.23) and separately, fees for all other services (paragraph R410.25), which would include the sustainability assurance engagement fee if the firm was providing both the audit and sustainability assurance engagements. This is duplicative and will be misleading to TCWG as well as the users of the reports as the independence considerations for audit and sustainability assurance engagements compared to non-assurance engagements are fundamentally different. Under the U.S. Securities and Exchange Commission’s Enhancement and Standardization of Climate-Related Disclosures for Investors, if a firm provides both an entity’s financial statement audit and GHG emissions attestation for the same filing, when disclosing fees, the fee for the attestation engagement would be considered “Audit-Related Fees,” also suggesting that such fees do not cause an independence threat to the audit. If fee disclosures are required under the IESSA, the fees from services requiring independence (audit and assurance) should be separate from the fees for non-assurance services. Conforming amendments should be made to paragraphs R410.23 to R410.27 to support the interoperability of Part 4A and Part 5.

EY - Ernst & Young Global Limited

No, we do not agree with the premise that the self-interest threat is impacted when a large proportion of fees charged by the firm or network firms to a sustainability assurance client is generated by providing audit or review services, or vice versa. We recognize that the Code includes application material designed to guide the evaluation and that paragraph 128 of the EM states that: “The IESBA does not believe that this guidance would impede the development of the sustainability assurance market or discourage the movement towards integrated reporting.” However, we believe that the fees for sustainability assurance and financial statement audit should be considered in combination and not separately when provided by the same firm, given that the standards for ethical behavior and independence will be equivalent, and that this should be clearly recognized in Part 4A.

We agree with the proposed approach as it relates to long association and partner rotation. However, and recognizing that in a number of jurisdictions there are and will be challenges with having a sufficient number of SAPs available, we believe there needs to be transitional provisions to distinguish between a sustainability assurance engagement as per Part 5, for which R5540.7 applies, and any prior voluntary assurance engagement on sustainability information undertaken which we believe should not impact the number of years included in the time-on period for purposes of R5540.7.

GTIL - Grant Thornton International Limited

GTIL does not agree with the approach in Part 5 related to the portion of fees.

The independence requirements being proposed for sustainability engagements are equivalent to those for financial statement audit engagements, yet the proposed standard requires the fees from the sustainability engagement to be classified as an ‘other fee.’

We believe the Board should reconsider its proposal and reconsider whether to require fees from a sustainability engagement be classified as ‘other fees.’

Regarding long association, GTIL does not agree with extending the PIE requirements, such as partner rotation, to a sustainability assurance client when the practitioner is not also the financial statement auditor for the reasons discussed above in the section “Determination of PIEs.”

KMPG - KPMG IFRG Limited

We do not support the proposed approach with regard to evaluation and disclosure of the proportion of fees when a firm performs both the audit of the financial statements and the assurance of the sustainability reporting for the same client. In that circumstance, we believe the calculation should be the proportion of fees “for services other than the audit and SAE” to the audit fee and the SAE fee. In other words, the SAE fee and the audit fee should be combined in the evaluation and compared against fees for other services. To include the SAE fees with fees for NAS diminishes the importance of the sustainability reporting and assurance and is inconsistent with the crucial role and increasing market demand for high-quality sustainability information. Further, we expect sustainability assurance to be delivered in a more integrated manner in the future and fees for such work may be combined. Examples include combining the auditing of stock movements for the financial statements and auditing of stock to understand stock consumed for emission purposes and combining testing new loans for a bank for audit purposes with new loans being evaluated for ESG risks. We also expect potential overlap in testing controls when the systems are the same for the audit and sustainability assurance engagements.

As an alternative approach, when a firm performs both audit and SAEs for the same client in a jurisdiction where legislation requires specific disclosure of the audit fee, the fees for sustainability assurance services should be scoped out of the fees for services other than audit to the client, as the firm will be subject to the same fee disclosure requirements in its capacity as SAP. This would prevent the situation where the client chooses another SAP over the firm providing the audit of the financial statements due to the perceived threat to auditor independence. This approach would be in line with the viewpoint taken by the European Commission in the Corporate Sustainability Reporting Directive where it indicates “To ensure the independence of the statutory auditor when carrying out a statutory audit, ... Regulation establishes a limit concerning the fees for other services that the statutory auditor can obtain. It is important to clarify that the assurance of sustainability reporting should not count in the calculation of that limit.”

MAZARS - Mazars Group

We do not agree with the proposals relating to fees where the same firm provides both the audit and sustainability assurance engagement. 5410.11.A1 refers the sustainability assurance provider to paragraphs 410.11.A1-A3 where they are also the auditor. The paragraphs in 410 refer to “Proportion of fees for service other than audit to audit fee”; however the extant code when considering threats to independence from the provision of

other services, in Section 600, refers to provision of “non-Assurance Services” to an audit client. We understand that the extant code does not envisage that the provision of assurance services to an audit client creates a threat to independence and, in that context, we do not agree that the provision of sustainability assurance gives rise to a threat to the auditor’s independence, or vice versa. Indeed, the proposals present a circular argument whereby the audit fee could be considered to be a threat to the independence of the sustainability assurance provider, and that the sustainability fee could be considered a threat to the auditor’s independence, which could end up with an interminable loop of independence considerations. If IESBA is concerned about the total audit and assurance fees, this may be more appropriately considered under fee dependency considerations for the combined audit and sustainability assurance fees. Proposed paragraph 5410.11.A1 should, therefore, be deleted.

As an example, this matter has been discussed extensively in Europe during development of the CSRD and the EU concluded that providing sustainability assurance does not give rise to independence threats and, as a result, excluded the provision of sustainability assurance to an audit client from the 70% fee cap for non-assurance services. Indeed, it is likely that many (probably most) entities would be likely to require their auditor to provide sustainability assurance as the most effective and efficient means of obtaining the assurance they require.

We also have some concerns that the long association proposals may lead to unintended consequences, at least in the short term. Once the sustainability assurance market is fully established, the proposals in IESSA around long association where the sustainability assurance practitioner and auditor are the same, are reasonable.

We believe that transitional provisions would be helpful in the next few years to avoid unintended consequences around assurance quality, negative impacts on sustainability assurance clients, and competition and choice in the assurance market. For example, in a situation where the audit partner is due to rotate off the audit next year but may be best placed to carry out sustainability assurance engagements as they may be the only accredited partner for such services at that time. In such a scenario that partner would not be able to take on the sustainability assurance engagement, even though that may be the best solution for both the client and the quality of the engagement. Such scenarios may be likely in the short term as auditors upskill and become experienced and/or accredited to undertake sustainability assurance engagements.

Academia and Research Institutes

NRS - Professor Nicole Ratzinger-Sakel

I do not agree. The IESBA’s approach assumes a self-interest threat when the sustainability assurance practitioner also audits the client’s financial statements. However, when the financial statement auditor also performs the sustainability assurance for the same client this can have a positive impact on audit quality, for instance, due to broader knowledge of the entity and its environment via performing the sustainability assurance.

Question 17 - No Specific Comments

Regulators and Oversight Authorities, incl. Monitoring Group members

CEAOB - Committee of European Auditing Oversight Bodies

ESMA - European Securities and Market Authority

IAASA - Irish Auditing & Accounting Supervisory Authority

IFIAR - International Forum of Independent Audit Regulators

IOSCO - International Organization of Securities Commissions

PAABZ - The Public Accountants and Auditors Board of Zimbabwe

Investors and Other Users

Ceres Accelerator

IAIP - Indian Association of Investment Professionals (CFA Society India)

MSCI - Morgan Stanley Capital International

NBIM - Norges Bank Investment Management

SAAJ - The Securities Analysts Association of Japan

Preparers and Those Charged With Governance

Asma Jan Muhammad

BD - Bruno Dirringer

ICFOA - International CFO Alliance

Professional Accounting Organizations (PAOs)

FACPCE - Federación Argentina de Consejos Profesionales de Ciencias Económicas

INCP - National Institute of Public Accountants of Colombia

NBA - Royal Netherlands Institute of Chartered Accountants

NYSSCPA - New York State Society of CPAs

PICPA - Pennsylvania Institute of Certified Public Accountants

Other Assurance Providers and Accreditation Bodies (non-PAs)

AA - AccountAbility

IAF - International Accreditation Forum

JAB - Japan Accreditation Board

Accounting Firms and Sole Practitioners

BKTI - Baker Tilly International

PP - Pitcher Partners Advisors Proprietary Limited

Not applicable in our jurisdiction. There is currently a requirement in Australia that the financial statement auditor provide the sustainability assurance.

Academia and Research Institutes

NNN - Nada Naufal Director at the American University of Beirut

Others

IBA - The International Bar Association

IIA - The Institute of Internal Auditors