

IESBA Sustainability**Question 14 (a) - Agree****Regulators and Oversight Authorities, incl. Monitoring Group members****BAOA - Botswana Accountancy Oversight Authority**

Yes, we agree.

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

NASBA agrees 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.

UKFRC - United Kingdom Financial Reporting Council

Yes, we agree with this.

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

Yes.

SAAJ - The Securities Analysts Association of Japan

Also, we basically agree with the proposal that, recognizing that the level of the threats to independence that might be created by interests, relationships or circumstances involving a value chain entity will generally be lower, such threats be addressed on a "knows or has reason to believe" principle basis.

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

Yes.

UNCTAD - UNCTAD's African Regional Partnership

100% of respondents concur with the identification of independence threats that may emerge from the segregation of responsibilities and endorse the guidance offered to mitigate these potential threats.

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

APESB agrees that certain interests, relationships or circumstances involving value chain entities might create threats to the firm's independence. Paragraph 112 of the IESSA Explanatory Memorandum states that the level of threats to independence involving a value chain entity will generally be lower. APESB would support the inclusion of this statement into the proposed Section 5700 as guidance.

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

Yes, we agree that certain interests, relationships or circumstances between the company, a network firm or a member of the sustainability assurance team and a value chain entity could create threats to the company's independence.

BICA - Botswana Institute of Chartered Accountants

- Agreeing 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 is essential.

CAANZ - Chartered Accountants Australia and New Zealand

We 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.

CAI - Chartered Accountants of Ireland

Yes, we agree, but as outlined in our response to question 13, only to the extent of assessing the firm, network firm, or member of the sustainability assurance team's objectivity in considering whether to rely on the sustainability information from the value chain entity, and the extent of any additional sustainability assurance procedures that may be required to be performed in order to rely on this sustainability information.

CFAR - Chamber of Financial Auditors of Romania

Yes, we do agree that where a firm uses the work of a sustainability assurance practitioner 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.

CFAA - CPA Australia

Yes, it is possible that threats to the firm's independence may be created.

CPAC - Chartered Professional Accountants Canada Public Trust Committee

Yes, we agree.

EFAA - European Federation of Accountants and Auditors for SMEs

We agree that where a firm uses the work of a sustainability assurance practitioner 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.

We believe that the level of these threats will generally be lower than those arising directly from a client.

ICAEW - Institute of Chartered Accountants in England and Wales

In principle, we consider that there may be certain interests, relationships or circumstances that create a potential threat to the firm's independence. This is consistent with the independence requirements that must be followed when using the work of a component auditor.

ICAS - The Institute of Chartered Accountants of Scotland

Yes – we 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.

ICPAU - Institute of Certified Public Accountants of Uganda

We agree that certain interests, relationships or circumstances between the firm, network firm or member of the sustainability assurance team and value chain entity can create threats to the firm’s independence and support the proposed requirement for all the interests, relationships or circumstances to be evaluated for threats to independence.

IFAC - International Federation of Accountants

We agree that these factors may create threats and that the level of these threats will generally be lower than those arising directly from a client.

IICA - Institute of Indonesia Chartered Accountants

Yes

JICPA - Japanese Institute of Certified Public Accountants

We 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.

KICPA - Korean Institute of Certified Public Accountants

The KICPA also support the views that the firm should pay attention to the fact that threats might be created to independence of the assurance client by interests, relationships or circumstances with a value chain entity, if the firm expresses an opinion on the client’s overall sustainability information containing the sustainability information of the value chain entity.

MICPA - Malaysian Institute of Certifice Public Accountants

We 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.

PAFA - The Pan-African Federation of Accountants

We agree that these factors may create threats and that the level of these threats will generally be lower than those arising directly from a client.

SOCPA - Saudi Organization for Chartered and Professional Accountants

SOCPA agrees that certain interests, relationships, or circumstances between the firm, a network firm, or the sustainability assurance team, and a value chain entity can create threats to the firm's independence. This is because even though another practitioner performs the assurance work on the value chain entity, the firm expressing the final opinion on the client's sustainability information holds ultimate responsibility. This creates a situation where a compromised relationship with a value chain entity could influence the firm's overall judgment.

Accounting Firms and Sole Practitioners

MOORE - Moore Global Network Limited

Yes, we agree that threats to independence may be created.

MU - Muhammad Umar - Mo Chartered Accountants

Yes we agree. The scope, possibility and risk of independence being jeopardised or compromised is higher in all aspects and may be difficult to detect and there may be high incidences of non-disclosure due to the entities not appreciating what would result in independence being at risk.

PKF - PKF Global

We agree with 14a).

RSM - RSM International Limited

We 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. This is also consistent with current independence requirements when using the work of a component auditor.

Academia and Research Institutes

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

Yes.

We agree that certain interests, relationships or circumstances between the firm and a value chain entity might create threats to the firm's independence.

DIRC - Deakin University Integrated Reporting Centre

We 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.

Question 14 (a) - Agree With Comments

Public Sector Organizations

UNCTAD - UNCTAD's Latin America Regional Alliance

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I agree 80% of respondents

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I am not sure 20% of respondents

Professional Accounting Organizations (PAOs)

ACCA - Association of Chartered Certified Accountants

We support at a high level 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. However, in practical applications scalability is required as the evaluation of the threats and associated threat will of course depend on the size, nature and complexity of the entity.

We 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 may potentially create threats to the firm's independence. During our outreach it was raised that in some jurisdictions, due to the small market, this may lead to a limited number of suppliers, if for example engagements need to be withdrawn if an important business relationship exists with a VCE. To that end, adequate lead time is crucial for practitioners to familiarise themselves with the new requirements, update internal procedures, and ensure compliance with the revised standards, alongside implementation of ISSA 5000 and the related reporting standards.

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

We agree that, depending on the use of information and reliance on sustainability reports or information from other companies that are not part of the client's corporate structure or economic group, such as the customers or suppliers of the client or companies in the market that provide supporting information to entities as a whole in a particular industry or jurisdiction (understood as "Value Chain Entities"), it is possible that threats to the independence of the practitioner providing assurance engagement may arise due to some relationship or circumstance that this practitioner may have with said entities, whose information will make up the sustainability information that will be assured.

However, it is necessary to develop and provide more details on how threats can be created and, in particular, what safeguards can be applied to reduce risks to acceptable levels.

Some general comments that may compromise the acceptance of assurance engagement by different practitioners, depending on the range of services and relationships they may have in the market and in the community:

Given that Value Chain Entities may be non-assurance/advisory clients of the audit firm, conflicts may arise and make the execution of the assurance engagement unfeasible.

As a consequence of the existence of conflicts, there is the possibility of a significant reduction in the market of options for sustainability assurance service providers to serve a given entity.

Furthermore, the need to maintain a structure necessary to comply with the independence requirements regarding Value Chain Entities can be complex and costly, discouraging, in particular, audit firms that have strict controls for monitoring independence aspects, with control management systems already developed.

Finally, for the purposes of auditing financial statements, independence analysis basically considers the relationships between the audit firm and its audit client and related entities. When the practitioner that will assure the sustainability information report is the same audit firm that audits the financial statements, it is possible to conclude that the firm is not independent and would not be able to carry out sustainability assurance engagement due to facts and circumstances with some Value Chain Entity. However, this firm is the

independent auditor of the financial statements. This disconnection between understandings and conclusions can lead to confusion in the view of users of both information for the public interest – how would the same firm be independent for the purposes of auditing the financial statements and not be independent for sustainability information?

MIA Malta - The Malta Institute of Accountants

MIA agrees 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. We understand and welcome the use of the proposed requirements. However, as an Institute we believe that there is a need for further clarity on the relationship between the firm, a network firm, all those who are providing sustainability-related information and all those who are providing sustainability-related assurance. Further consideration is needed to address the challenges that assurers are likely to face, for example, when encountering potential instances of greenwashing.

SAICA - South African Institute of Chartered Accountants

SAICA agrees that threats may be created in these circumstances.

We suggest that guidance is required in helping to determine how and when such interests or relationships with a value chain entity is relevant to the evaluation of the firm's independence from the client. There is need to clarify independence in the value chain.

WPK - Wirtschaftsprüferkammer (Germany)

We principally agree with the IESBA's view. However, given the fact that the value chains of one client in a sustainability assurance engagement may comprise a very large number of entities, clear and practicable provisions and sufficient guidance are of utmost importance.

Other Assurance Providers and Accreditation Bodies (non-PAs)

JAB - Japan Accreditation Board

Regarding section R5700.4, whether to extend the scope of the objectivity assessment to the client's value chain, where certain suppliers within the client's value chain are also suppliers that provide services to many other entities. In that case, such suppliers may become inundated with numerous requests from their customers to provide information regarding their interests, relationships and circumstances with external experts to be complicated. We agree that the supplier's compliance with those requests is beyond the control of the practitioner, client, or entity for which the professional is performing the work.

Regarding the sustainability reporting specific independence provision (Section R 5405, Section R 5406, Section R 5407, Section R 5700), we recommend further clarifications and provisions to support their appropriate application in practice, including the relationship with related provisions and illustrations. In accordance with "Knows, or has reason to believe" principle, we recommend further clarification with guidance how group sustainability assurance practitioners shall include that interest, relationship or circumstance when identifying, evaluating and addressing threats to independence

Academia and Research Institutes

NSU - Nova Southeastern University

- Threats to independence definitely rise from the existence of personal interest between the firm, its network, or one of the assurance practitioners team members given by family bonds or economic interest with the client or other entities in the value chain. I agree that such relationships need to be evaluated and properly handled since they harbor biases, create conflicts of interest, and ultimately jeopardize the outcome of the engagement undermining the public trust in the reports provided by the assurance practitioner or its team. In my opinion the explanation in Section 5700 on how to evaluate such relationships and address the threats that might compromise the independence of the assurance engagement is very broad and it would be beneficial to include further details on how to handle circumstances or threads that could impair the independence of the assurance service. Additional guidance can include procedures or protocols on how to manage threats to independence, pressures or conflicts of interest between the client, the practitioner, and the rest of the value chain entities similar in extent or detail to the instructions provided in Section 5270 referring pressure to breach compliance.
- Yes, I 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. It's important to identify and address these threats to ensure that independence is maintained.
- Yes, I support the approach and guidance proposed in Section 5700 for identifying, evaluating, and addressing threats that might be created by interests, relationships, or circumstances with a value chain entity. This guidance helps ensure that independence is maintained in such situations, which is important for the credibility of the assurance process.

Question 14 (a) - Disagree

Regulators and Oversight Authorities, incl. Monitoring Group members

IRBA - Independent Regulatory Board for Auditors

We disagree with the provisions in Section 5407. Our considerations in reaching this conclusion include:

The risk to independence as identified by the IESBA, when the sustainability assurance practitioner is already independent of the sustainability assurance client, is unclear. When compared to an audit of financial statements, the auditor is not required to be independent of all customers, suppliers, or service providers in the operational value chain.

We question the feasibility of applying the proposed requirements. The proposed requirements to assess independence of the value chain entity and all its related entities are complex to understand and onerous to implement. Some reasons for this include:

Framework neutrality because the value chain requirements will be different depending on which framework is applied.

The value chain could include a wide range of entities such as customers, suppliers, and service providers, making it difficult to determine and maintain independence from all related entities i.e. the vast number of potential connections and relationships that could exist represent too many relationships to monitor practically.

We recognise that the "no reason to believe" principle is intended not to create a monitoring obligation. Regardless, it is expected that the practical consequence will require firms to update their systems and processes to facilitate this test.

Due to the expected difficulty in complying with these independence requirements, the unintended consequences may include:

Market challenges, specifically difficulty to find an independent sustainability assurance practitioner due to the stringent independence provisions.

Multiple qualifications on assurance reports, especially in the early days of implementing the standards, which doesn't encourage public trust in sustainability information and / or the assurance process.

Intentional circumvention of the stricter independence requirements that apply when the sustainability assurance engagement is performed at the value chain entity, by obtaining information from the group assurance engagement client instead of directly from the value chain entity.

Enforceability of the proposed independence requirements related to value chain entities is expected to be equally as challenging as complying with them in the first instance.

Alternative proposals for consideration by the IESBA include:

- Introduction of a materiality threshold for independence considerations, as the impact of certain value chain entities might be more significant than others.
- A universal approach to obtaining confirmation of independence, which would apply to both components and value chain entities, to streamline the process and reduce complexity. This approach would focus on ensuring independence through the practitioner's involvement in the work, rather than getting caught up in the semantics of whether an entity is a component or a value chain entity.

Independent National Standard Setter

NZAuASB - New-Zealand Auditing & Assurance Standard Board

We agree that certain interests, relationships, or circumstances relating to a value chain entity might create threats to independence. However, our key concern is the length and complexity of proposed Part 5. Given the complexities surrounding the value chain, we believe that the sections 5407 and 5700 on value chain would benefit from additional time to develop. We recommend these sections should be removed from Part 5 at this time. We recommend that the IESBA explore the value chain considerations in non-authoritative guidance.

Professional Accounting Organizations (PAOs)

AE - Accountancy Europe

We do not support the approach taken by the IESBA as it is quite challenging to apply in practice. Firstly, the nature and significance of the information should be the determining factor rather than the location of the assurance procedures performed. Secondly, companies may have hundreds of value chain entities with which they have relationships and activities, but they will not have control over them as these entities may well be outside their organisational boundary. Finally, sustainability assurance practitioners will not have a contractual arrangement with these entities. Therefore, monitoring and maintaining independence from the full range of entities in the value chain will not be practically possible

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

Overall response: No.

Detailed comments: Section 5700 should be removed in its entirety because the sustainability assurance practitioner is already required to consider the conceptual framework. These proposed requirements go beyond the requirements for audit clients, and generally, we believe any threats that may exist would be trivial and inconsequential in this circumstance for the reasons below.

Value chain entities are generally unrelated third parties to the sustainability assurance client. The sustainability assurance client is responsible for reporting, as well as implementing controls over reporting and the reliability of information from the value chain.

Another practitioner will have assured the value chain's sustainability information that is being included in the sustainability assurance client's report and is required to be independent of that value chain entity in its assurance engagement, which the sustainability assurance practitioner may obtain as evidence from the sustainability assurance client.

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

No, we disagree.

As mentioned above in our response to question 13, we do not agree with applying the full independence requirements to the value chain. We believe it should be limited to conflicts of interests and self-review threats.

When a firm uses the work of a sustainability assurance practitioner who is not a member of the firm to perform assurance work on the value chain information, it seems to us that it builds an additional "firewall" to any potential issue of independence between the firm and the value chain entity. By using an assurance practitioner who is independent from the firm, from the sustainability assurance team and from the value chain to provide to the firm assurance on the value chain information, we consider that the firm builds an additional safeguard to any potential independence issue between the firm and the value chain entity.

This is why we are not favorable to paragraph R5700.4 which stipulates that "when the sustainability assurance team knows, or has reason to believe, that an interest, relationship or circumstance between the firm, a network firm or a member of the sustainability assurance team and the value chain entity is relevant to the evaluation of the firm's independence from the client, the sustainability assurance team shall include that interest,

relationship or circumstance when identifying, evaluating and addressing threats to independence.”

This paragraph is a source of permanent insecurity for the firms that would have to demonstrate in case of future litigations that nobody knew or had reason to believe, at the time when the assurance engagement was conducted, that there was a potential problem of independence.

The concept of ‘knows or has reason to believe’ appears in various parts of the code but mostly when dealing with conflicts of interests, and it lacks a specific definition. Given its expanded use in a new context, a clear definition of its meaning and implications for the assurance provider should be introduced into the code to avoid ambiguity and ensure consistent interpretations.

Paragraph 113 of the explanatory memorandum state that “the IESBA does not intend that the application of the “knows or has reason to believe” principle create a monitoring obligation on the firm. Accordingly, there is no expectation that the firm maintains an up-to-date database of the client’s value chain entities and monitor any interests, relationships and circumstances between the firm, network firms and members of the sustainability assurance team and such entities.” Such expectation is not explicitly written or explained in the code, and to avoid misinterpretation, should paragraph R5700.4 be maintained as such, this expectation should be introduced and specified into the code.

We also consider that, even without maintaining an up-to-date database of the client’s value chain entities (which would be impracticable) in accordance with ISQM, firms already possess databases to monitor interests, relationships and circumstances between the firm, network firms and their employees (the members of the sustainability assurance team), and entities that may or may not be assurance clients. The board should provide clarity regarding the information that must be considered to meet the requirement to ‘know’ when performing assurance work. For instance, should audit practitioners inquire about all existing source of information at their disposal, including such database, to assess independence in relation to value chain entities? The board’s expectations in this regard need clarification. If the board expects the engagement team to undertake dedicated procedures to identify potential threats to independence, it could create practical challenges and increase the risk of potential non-significant breaches that the assurance practitioner must consider.

The board should further specify that, when the assurance practitioner has no contractual obligation to perform assurance work for the value chain entity, if a threat to compliance with the fundamental principles of the code related to supply chain entities is identified, the practitioner should apply guidance of section 5300 – “applying the conceptual framework”. It would be then beneficial for the sustainability practitioner if the code includes applications material such as practical examples to illustrate the conceptual framework and guide their works.

Examples of such threats in our view should be limited to conflicts of interests and self-review threats.

To conclude, we believe that the requirement, if any, should be purely reactive and limited to conflicts of interests and self-review threats, which we consider to be the most serious threats in such case.

HKICPA - Hong Kong Institute of Certified Public Accountants

We regard that the threats arising from the relationships between the firm, a network firm, or a member of the sustainability assurance team and a value chain entity are low due to their remote relationships. Additionally, according to paragraphs 112 and 113 of the IESBA's explanatory memorandum, the IESBA proposes in Section 5700 that the threats to independence arising from these relationships should generally be low and addressed based on the principle of "knows or has reason to believe." And hence implementing the "knows or has reason to believe" principle should not impose a monitoring obligation on the firm. In view of this, we do not perceive any necessity to include such requirements in the ED-IESSA.

IDW - Institute der Wirtschaftsprüfer (Germany)

If a firm uses the work of another SAP who is independent of the value chain entity, we see no compelling argument that there is a sufficient threat to require that firm to also be fully independent of the value chain entity under the IESBA Code and support the approach in R5700.4.

We refer to our cover letter where we explain our concerns as to the potential for the proposals to limit work done "at a value chain entity" even when this would improve the quality of the assurance obtained. We do not believe SAPs will be able to comply with the required level of independence from value chain entities. Instead, a threat and safeguards approach should apply to mitigate the significance of any possible threat (i.e., this should include a specific consideration of the significance of the information from the value chain entity).

IWP - Institut Österreichischer Wirtschaftsprüferinnen

No. We can't conceive a situation where 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.

Also, in a globalised world, sustainability assurance clients may have hundreds or thousands of value chain entities; it will be virtually impossible to both identify all of them including their related entities and to ensure that there is no relationship between a network and all of these value chain entities or any individuals, taking into account that the sustainability assurance provider has no contractual relationship with these entity and that they are beyond the organisations boundaries of its client.

MIA-Malaysian - Malaysian Institute of Accountants

We 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.

However, we have reservations with the approach 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 when the value chain entities are usually beyond

the reporting boundaries of the sustainability assurance client. The proposed Section 5700 also does not currently contain application material to provide further guidance on the types of matters that would need to be considered, the factors that are relevant in assessing the threats, or the safeguards that can reduce threats to independence.

Introducing independence considerations for sustainability assurance practitioners in relation to value chain entities, even if they do not offer assurance services there, may result in limited availability of market options for clients seeking advisory support for their sustainability reporting needs.

It is important to recognise that high-quality information is crucial for reliable sustainability reporting and overly onerous independence requirements may inadvertently undermine the sustainability reporting ecosystem.

We suggest the IESBA consider the practicality of the current approach for this proposed standard for value chain entities. We would recommend that Section 5700 be removed in its entirety because the sustainability assurance practitioner is already required to apply the conceptual framework in the situation as addressed in paragraph 5407.2 A1 (b).

Creating a specific requirement in Section 5700 to further assess threats contributes to the following:

potential unnecessary costs to assurance providers and clients;

potentially restricts the number of sustainability assurance providers to perform sustainability assurance without providing appreciable public interest benefits.

Accounting Firms and Sole Practitioners

Assirevi - Association of Italian Audit Firms

The Exposure Draft deals with the use by a firm of the work of a sustainability assurance practitioner who separately performs the assurance work at a value chain entity for the purposes of expressing the opinion on its client's sustainability assurance. In this regard the IESBA proposes to consider independence threats arising from interests, relationships and circumstances between the firm itself, which carries out sustainability assurance work, its network, team members on one side and the value chain entity on the other.

Assirevi believes it is important to maintain independence for the firm and its team performing the sustainability assurance engagement towards the sustainability assurance client. Nonetheless we disagree with the proposal contained in the Exposure Draft, as it would create complexity insofar as the firm has no relationship, direction, supervision and review over the value chain entity or the sustainability assurance practitioner used. These entities are outside the firm's governance: both the value chain and the practitioner who separately performs the assurance work at a value chain entity belong to an autonomous legal sphere, external to that of the firm. The client itself, that is the subject of the sustainability assurance, does not have control tools to carry out checks on the value chain entity.

It should be noted that the firm, which employs the work of the sustainability assurance practitioner who performs the assurance work at a value chain entity, uses a practitioner who must be independent in relation to the value chain entity on which he has performed activities. Therefore, the threat to independence is already safeguarded by the work carried

out by the practitioner used by the firm, which must be independent of the value chain entity on which it carries out the work. To the extent that he is independent, the activity carried out by the same, that is used by the firm for carrying out its sustainability assurance activity of its client, ensures the maintenance of the necessary objectivity requirements.

BDO - BDO International Limited

BDO disagrees, with the following additional comments:

As explained in BDO’s response to question 13 above, BDO believes that application material with guidance is needed to help in determining how or when such interests or relationships with a value chain entity is relevant to the evaluation of the firm’s independence from the client.

DTTL - Deloitte Touch Tohmatsu Limited

Deloitte Global does not agree with the premise in Section 5700 that if a sustainability assurance practitioner uses the work of another practitioner who separately performs assurance work at the value chain entity, the sustainability assurance practitioner will need to assess any interests, relationships or circumstances involving the value chain entity that may be relevant to their own independence (based on a “knows or has reason to believe” assessment). This fails to recognize a separate sustainability assurance practitioner already serves as an effective safeguard that should preclude the need to make this assessment. The current approach in Part 4B, which requires independence with respect to the “assurance client,” is a more appropriate approach.

EY - Ernst & Young Global Limited

No, we believe that threats generally will be sufficiently safeguarded when a firm uses the work of another SAP who complies with Part 5 in performing work at a value chain entity and retains sole responsibility for the assurance report on the sustainability information of the value chain entity. We note that the Code has an established safeguard in Part 4 of using another firm outside of the network to review or re-perform audit work in order to address threats to independence. Also, paragraph 5400.32 A1 includes the concept of a predecessor firm issuing an assurance report on sustainability information as an action that would eliminate or reduce threats to independence to an acceptable level. Similarly, when using a System and Organization Controls (“SOC”) report in a financial statement audit context, it is not necessary for the auditor of the user entity to consider independence with respect to the service organization.

We believe it is appropriate to apply this same concept to situations when a firm uses the work of an SAP who performs work at a value chain entity, in accordance with Part 5, and retains sole responsibility for the value chain entity’s assurance report. In such situations, the firm will receive the value chain entity’s sustainability information and the value chain SAP’s assurance report, and the firm will have no ability to modify the information subjected to the value chain SAP’s assurance report, and will accept and use the assurance report as evidence. In such a case, we believe it is appropriate to conclude that the threats to the firm’s independence are at an acceptable level.

KMPG - KPMG IFRG Limited

If we were to apply Sections 5407 and 5700 analogously to a financial statement audit where a cash balance that is confirmed by a third party bank is included in the audited financial statements of a company, then the auditor of the company would need to be satisfied that the auditor of the bank has made a statement that the auditor of the bank is independent in accordance with the International Independence Standards of the IESBA Code. On top of that, the auditor of the company would also need to be independent of the bank. Additionally, if the auditor of the company has a financial interest in the bank, for example, this might create a self-interest threat. Just as we do not have these independence requirements for a financial statement audit, we do not agree with their inclusion in Part 5.

We do not agree that certain interests, relationships or circumstances between the firm or its sustainability assurance team and a VCE may potentially compromise the firm's independence. For the reasons stated in our response to question 13, the likelihood of such an interest, relationship or circumstance affecting the SAE is minimal, and it is even less likely when it involves a network firm and a VCE. The network firm operates independently and is far removed from impacting the sustainability information included in the client's sustainability assurance report.

MAZARS - Mazars Group

The IESBA states in the explanatory memorandum that there are interests, relationships or circumstances that might create threats to the firm's independence. However, the IESBA does not provide examples of the sorts of situations it has in mind. In the absence of clear examples, we do not necessarily agree that such interests, relationships or circumstances may create significant threats to the assurance practitioner's independence that warrant particular independence consideration.

The IESBA should set out its concerns more clearly.

PP - Pitcher Partners Advisors Proprietary Limited

The "value chain" concept is still unclear, and as such we believe it would be inappropriate and premature to extend independence generically to entities within a value chain. It is currently unclear which entities might be in a value chain at the inception of a sustainability engagement. Thus, assurance providers could be commencing in good faith and then resigning due to independence issues.

Any extension of independence beyond the directly contracted assurance client is overly complex and potentially unworkable. With the interconnectivity of businesses in industries it may be almost impossible to comply with the independence requirements for value chain entities, especially in scenarios where the sustainability assurance has to be provided by the financial statement auditor.

PwC - PricewaterhouseCoopers International Limited

No, with comments below

We believe that Section 5700 should be removed in its entirety because the sustainability assurance practitioner is already required to apply the conceptual framework in the situation addressed in 5407.2 A1 bullet (b).

The proposal requires consideration of the conceptual framework, which allows for the application of safeguards to address threats to independence. An independent third-party practitioner providing assurance on value chain entity data and information acts as a safeguard for the sustainability practitioner and mitigates threats to an acceptable level under the conceptual framework. The IESBA's proposed requirements detailed in 5407 for confirming the independence of such a third-party sustainability assurance provider plays a role in strengthening and validating this as a safeguard to any threats to independence with respect to the value chain entity.

Creating a specific requirement to further assess threats that are already at an acceptable level casts doubt on the assurance work performed by the other independent sustainability practitioner, creates unnecessary costs to assurance providers and clients and potentially restricts the number of sustainability assurance providers able to perform sustainability assurance without providing appreciable public interest benefits.

In similar circumstances where an entity uses a service organisation for the processing of transactions and a service organisation auditor is engaged to provide assurance over the controls in place at the service organisation, the extant independence standard does not include any requirements for the user entity organisation's auditor to consider any threats and related safeguards to its independence. We believe this approach can be used by analogy in these circumstances and no additional independence requirements are necessary.

If the Board determines to keep this section:

We believe that it should be combined with section 5407.

It should be clear that the Section only applies when a firm uses the work of another sustainability assurance practitioner at the value chain entity (as per 5700.2, the scenario in 5407.2 A1 (b))

We recommend that the Standard recognises that independence considerations will depend on what is being reported and assured and whether it is a related entity.

While we recognise that the proposal allows for the application of the conceptual framework approach, which inherently allows for the application of safeguards to address any known threats to independence, we recommend that the text specifically details safeguards that would be deemed effective. This should include the notion of a separate reviewer and/or the concept of a "cleansing audit" where, for example, a NAS has been provided by the group sustainability assurance practitioner which impacts the sustainability data or information at a value chain entity which has subsequently been subject to assurance by a sustainability assurance provider at the value chain entity.

We believe that the Standard should provide for actions and safeguards if there are changes in the value chain or materiality considerations during the year. As noted above in the response to Q13 there are a number of reasons why the scope of value chain entities subject to assurance may change during the year.

Question 14 (a) - No Specific Comments

Regulators and Oversight Authorities, incl. Monitoring Group members

ACRA - Accounting and Corporate Regulatory Authority (Singapore)

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

SGX - Singapore Exchange Limited

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

Preparers and Those Charged With Governance

Asma Jan Muhammad

BD - Bruno Durringer

ICFOA - International CFO Alliance

Public Sector Organizations

GAO - US Government Accountability Office

Professional Accounting Organizations (PAOs)

FACPCE - Federación Argentina de Consejos Profesionales de Ciencias Económicas

GAA - Global Accounting Alliance

INCP - National Institute of Public Accountants of Colombia

IPA - Institute of Public Accountants (Australia)

ISCA - Institute of Singapore Chartered Accountants

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-PAOs)

AA - AccountAbility

IAF - International Accreditation Forum

Accounting Firms and Sole Practitioners

BKTI - Baker Tilly International

GTIL - Grant Thornton International Limited

Academia and Research Institutes

NNN - Nada Naufal Director at the American University of Beirut

NRS - Professor Nicole Ratzinger-Sakel

Others

IBA - The International Bar Association

IIA - The Institute of Internal Auditors

IESBA Sustainability

Question 14 (b) - Agree

Regulators and Oversight Authorities, incl. Monitoring Group members

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

NASBA supports 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. NASBA believes that there is a need for supplemental implementation guidance to assist practitioners with a better understanding of a value chain entity.

UKFRC - United Kingdom Financial Reporting Council

Yes, but we believe this material may be more helpfully presented in section 5407 with the other material on value chain entities.

Public Sector Organizations

UNCTAD - UNCTAD's African Regional Partnership

100% of respondents concur with the identification of independence threats that may emerge from the segregation of responsibilities and endorse the guidance offered to mitigate these potential threats.

Professional Accounting Organizations (PAOs)

AIC - Asociacion Interamericana de Contabilidad (Inter-American Accounting Association)

Yes, we support the proposed approach and guidance for identifying, assessing and addressing threats that may be created by interests, relationships or circumstances with a value chain entity in Section 5700 that with respect to interests, relationships or circumstances involving a value chain entity in paragraph R5700. 4 provides that "where the sustainability assurance team knows, or has reason to believe, that an interest, relationship or circumstance between the firm, a network firm or a member of the sustainability assurance team and the value chain entity is relevant to the assessment of the firm's independence from the client, the sustainability assurance team shall include that interest, relationship or circumstance when identifying, assessing and addressing threats to independence.

We understand that only with effective implementation with sustainability assurance engagements, after a reasonable period, may the need arise for further guidance that is relevant to include in Part 5 of the ED.

BICA - Botswana Institute of Chartered Accountants

Supporting the approach and guidance proposed for identifying, evaluating, and addressing these threats in Section 5700 is crucial for managing and mitigating potential risks effectively.

EFAA - European Federation of Accountants and Auditors for SMEs

We support the approach and guidance proposed for identifying, evaluating, and addressing the threats.

We concur with the IESBA that the level of the threats to independence that might be created by interests, relationships or circumstances involving a value chain entity will generally be lower. We therefore support the proposal that such threats be addressed on a “knows or has reason to believe” principle basis. This principle is a well-established concept in the extant Code and proportionate.

ICPAU - Institute of Certified Public Accountants of Uganda

We also support the approach and guidance in Section 5700 as we believe that it will be effective in the evaluation of independence threats associated with sustainability assurance engagements.

IICA - Institute of Indonesia Chartered Accountants

Yes

KICPA - Korean Institute of Certified Public Accountants

In this regard, it is deemed appropriate for the firm to take the “knows or has reason to believe” approach as this approach encourages the firm to pay attention to independence, while reducing the associated practical burden.

MICPA - Malaysian Institute of Certified Public Accountants

We are supportive of the approach and guidance proposed.

PAFA - The Pan-African Federation of Accountants

We 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.

SAICA - South African Institute of Chartered Accountants

SAICA supports 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.

Accounting Firms and Sole Practitioners

MOORE - Moore Global Network Limited

Yes, we support the approach and guidance in Section 5700. We do not believe that other guidance should be included in Part 5, but rather in non-authoritative guidance and training materials. This guidance should focus on practical case studies.

MU - Muhammad Umar - Mo Chartered Accountants

Independence risks will be a developing phenomenon in sustainability reporting although the base being the extant code is a solid foundation and basis. The extent and impact of value chain independence will be challenging to supervise and may have to be viewed on a scale factor, failing which it would be impractical to adopt. There has to be proportionality and weighing of the impact of an independence matter or potential matter to enable functionality.

Academia and Research Institutes

DIRC - Deakin University Integrated Reporting Centre

We also 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.

14 (b) - Agree With Comments

Regulators and Oversight Authorities, incl. Monitoring Group members

BAOA - Botswana Accountancy Oversight Authority

We support the approach and guidance in section 5700 as its provisions are deliberate in ensuring that the engagement leader takes responsibility for independence in cases where the sustainability assurance work has been performed by another sustainability assurance practitioner. The Statement of Assurance which is to be provided by the sustainability assurance practitioner also provides accountability that the independence requirements were complied with. However, we believe that the IESBA should provide more guidance on factors that are relevant in evaluating threats as well as potential safeguards where threats to independence have been identified.

CEAOB - Committee of European Auditing Oversight Bodies

Even if the "knows, or has reason to believe" principle is established in the current Code, this concept remains subject to interpretation and SAPs outside the accounting profession or those that do not apply the current Code might be less experienced in applying it. For consistent understanding and application of the Code, the IESBA should elaborate more on this concept and provide examples as well as guidance in part 5.

IAASA - Irish Auditing & Accounting Supervisory Authority

Even if the "knows, or has reason to believe" principle is established in the current Code, this concept remains subject to interpretation and SAPs outside the accounting profession or those that do not apply the current Code might be less experienced in applying it. For consistent understanding and application of the Code, the IESBA should elaborate more on this concept and provide examples as well as guidance in part 5.

IFIAR - International Forum of Independent Audit Regulators

It is acknowledged that the "knows, or reason to believe" principle is established in the current Code. However, this concept remains subject to interpretation and SAPs outside the accounting profession might be less experienced in applying it. This seems a particular challenge for SAPs when determining the firm's independence from the value chain entity (section 5700). For consistent understanding and application of the Code, the IESBA should elaborate more on this concept and provide examples as well as guidance in part 5. This should entail further clarification on how to apply the "knows, or reason to believe" principle and what the SAP is expected to do if there are independence issue identified.

SGX - Singapore Exchange Limited

Yes, with comments.

The “knows or has reason to believe” principle in R5700.4 requires the disclosure of both actual or perceived threats to independence.

Suggest that Section 5700 may also include some examples of the common factors to evaluate threats and potential safeguards

Investors and Other Users

SAAJ - The Securities Analysts Association of Japan

The “knows or has reason to believe” principle may be a well-established concept in financial statement audit engagements, but for the objective of profession-agnostic standards, we encourage the IESBA to provide an explanatory memorandum with illustrative examples to reduce diversity in practice among sustainability assurance practitioners other than audit firms through consistent application of the standard and to improve the understandability of users of sustainability information.

Public Sector Organizations

UNCTAD - UNCTAD’s Latin America Regional Alliance

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I do support - 80% of respondents

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I am not sure 20% of respondents

Independent National Standard Setter

APESB - Accounting Professional & Ethical Standards Board (Australia)

The approach and requirement proposed for identifying, evaluating, and addressing threats to Independence in Section 5700 is consistent with the extant requirements in paragraphs R400.20 and R800.8 for related entities, albeit it extends the requirements to also capture interests. While practitioners may have established mechanisms to address how to apply the ‘reason to believe’ test when it relates to entities within the organisation’s boundary, there is no guidance within the proposed Section 5700 to assist practitioners in applying this concept to a much broader range of entities with limited ability to obtain required information.

APESB would support the guidance in paragraph 113 of the IESSA Explanatory Memorandum being included in this proposed section. Additional guidance should also be provided on examples of factors to evaluate threats and safeguards.

Professional Accounting Organizations (PAOs)

ACCA - Association of Chartered Certified Accountants

We support at a high level 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. However, in practical applications scalability is required as the evaluation of the threats and associated threat will of course depend on the size, nature and complexity of the entity.

CAANZ - Chartered Accountants Australia and New Zealand

Feedback we received from our members suggests that the “knows or has reason to believe” principle basis in section 5700 is workable in practice in this regard. However, we recommend that section 5700 is incorporated into section 5407 so that all value chain entity considerations are in one place. This would provide clarity about the link between the “knows or has reason to believe” principle and section 5407.

CAI - Chartered Accountants of Ireland

Linking with Section 5700, and our response to question 14, it would be useful to also include either reference to Section 5700, if it is updated with guidance for threats and safeguards regarding a sustainability assurance client’s value chain entities, or examples of threats that might present if providing non-assurance services to a sustainability assurance client’s value chain entities, and possible safeguards that can be taken.

We support the provisions within Section 5700, as they are reasonable and practical, more so with the application of the conceptual framework as set out in Section 5120 and the “knows or reasons to believe” principle. While this principle is a well-established concept within the extant Code, we are conscious of the agnostic intent of Part 5 of the Code, and we recommend the inclusion of application guidance explaining this principle.

Reflecting on our response to question 13, we recommend Section 5700 becomes the exclusive section of Part 5 of the Code addressing value chain entities. Having value chain considerations in a sustainability assurance engagement in one section will make it easier for users of the Code to reference and identify the key requirements and guidance relating to these. As per our response to question 13, we do not believe the requirements of Section 5407 are operable, and by incorporating our recommendations outlined in our response, we believe Section 5700 would be the appropriate place to address objectivity and independence requirements with regard to value chain entities.

We believe it would also be relevant to cross reference the requirements of section 5406, Another Practitioner Involved in a Sustainability Assurance Engagement for a Single Entity or Group, in the context of relying on the work of another SAP that performed assurance work at a value chain entity, but not under the direction of the firm seeking to rely on that work.

Further guidance would also assist understanding and consistent application by providing examples of typical threats, some examples include: (a) value chain entity is an audit client of the SAP firm, (b) value chain entity is also in the value chain of the SAP firm, and (c) the SAP firm has provided consulting services to the value chain entity. Guidance would also provide examples of safeguards to be applied in such instances, up to and including engaging another SAP to perform assurance work within the value chain entity. Notwithstanding that they apply to sustainability assurance clients, cross references to sections 5600 to 5610 would also be a useful source of examples of safeguards that may be also appropriate to apply in certain circumstances for value chain entities. Alternatively, the IESBA may consider it more relevant to include a list of appropriate safeguards specific to circumstances involving value chain entities as part of Section 5700.

CFAR - Chamber of Financial Auditors of Romania

We support the approach and guidance proposed for identifying, evaluating, and addressing the threats, but in the limits that such threats be addressed on a “knows or has

reason to believe” principle basis. It is essential for Part 5 of the International Code of Ethics for Professional Accountants to appropriately address these threats to maintain the integrity and credibility of sustainability assurance engagements. However, we acknowledge the need for clarity regarding the factors to evaluate threats and potential safeguards in Section 5700. While the 'knows or has reason to believe' principle is a well-established concept, additional guidance or examples of factors to consider could enhance the effectiveness of the approach and facilitate consistent application by practitioners.

CPAA - CPA Australia

The guidance provided in Section 5700 seems appropriate but is potentially misplaced. The IESBA might consider moving the wording in Section 5700 to Section 5407, so that it precedes Sections 5410 through 5600, where such interests, relationships or circumstances need to be considered.

CPAC - Chartered Professional Accountants Canada Public Trust Committee

The PTC is generally supportive of the approach and guidance provided in Section 5700. We think that it is important to acknowledge, however, that this approach fundamentally depends on employing the conceptual framework outlined in Section 5120. Given that the "knows or has reason to believe" principle is well-established within the existing Code, and PAs are already accustomed to its application in current practice, we advise the IESBA to include further guidance and examples aimed at ensuring its consistent implementation by sustainability assurance professionals who are not PAs.

ICAEW - Institute of Chartered Accountants in England and Wales

We do not consider that proposed new Section 5700 provides sufficient guidance for non-Professional Accountants to be able to adequately identify, evaluate or address potential threats in relation to a value chain entity.

Whilst proposed new Section R5700.4 provides useful factors that should be considered, it does not provide a useful template of how those factors should be weighted and considered, and where interests should be considered to be relevant and material to an assessment of independence. This is particularly important in the context of non-Professional Accountants who may not be familiar with the conduct of such an important exercise.

We consider that it would be helpful to make it explicit that the Sustainability Assurance Practitioner has an active duty of inquiry; and should take pro-active steps to make inquiry of both team members and the firm to ascertain whether there are any potential threats.

Generally, we consider that proposed new Section 5700.4 should be supported by more detailed application material, and in particular dealing with the circumstances in which a Sustainability Assurance Practitioner is considered to be imparted with “reason to believe” as this provision might be relied on to support regulatory action against practitioners.

We consider that there would be value in IESBA producing a series of worked case study examples to illustrate the sorts of interests, relationships and circumstances that may be relevant to independence considerations and how they should be assessed.

ICAS - The Institute of Chartered Accountants of Scotland

What if independence cannot be confirmed?

As with Sections 5406 and 5407, there is no guidance in this section as to what is to be done if independence is not confirmed. We believe more guidance is needed here. For example, could one consider materiality of the value chain information to the total, the reason the firm is not independent of the value chain etc?

Clarification of circumstances

We believe that the wording in paragraph 5700.2 could be amended to clarify the particular circumstance to which this relates (wording in red from explanatory memorandum paragraph 111 below):

'5700.2 When a firm uses the work of a sustainability assurance practitioner at a value chain entity whose sustainability information is included in sustainability information on which the firm expresses an opinion, **although the firm uses the assurance work of the other practitioner, the firm still has ultimate responsibility for the sustainability assurance engagement and the opinion on the sustainability information.** As such, interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and the value chain entity might create threats to independence. This section sets out application material relevant to applying the conceptual framework in such circumstances.'

['111. There might be circumstances where a firm uses the work of a sustainability assurance practitioner who separately performs the assurance work at a value chain entity whose sustainability information is included in sustainability information on which the firm expresses an opinion. **Although the firm uses the assurance work of the other practitioner, the firm still has ultimate responsibility for the sustainability assurance engagement and the opinion on the sustainability information.** Therefore, the IESBA believes that Part 5 should 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. The IESBA welcomes respondents' views on whether proposed Section 5700 appropriately addresses such threats. Please refer to question 14.']

Links between Section 5700 and Section 5407

We believe that all the provisions in relation to Value Chain Entities should either be contained within the one Section of the Code, or reference should be made to Section 5700 within Section 5407 (and vice versa), otherwise the additional provisions within Section 5700 could be inadvertently missed.

Section 5700 essentially relates to the scenario in 5407.2 A1 (b):

"5407.2 A1 The sustainability information on which a firm expresses an opinion might include information from a value chain entity. In performing the sustainability assurance engagement in accordance with the relevant sustainability assurance standards, the firm might determine that assurance procedures need to be performed at, or with respect to, that value chain entity. In such circumstances, the firm might: (a) Perform the assurance work at the value chain entity; (b) Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or (c) Perform 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."

This is covered in “Independence Considerations When a Firm Intends to Use the Work of a Sustainability Assurance Practitioner at a Value Chain Entity” in paragraphs 5407.4 and 5407.5. A link could therefore be made here to Section 5700 using wording along the following lines:

5407.xx When a firm uses the work of a sustainability assurance practitioner at a value chain entity whose sustainability information is included in sustainability information on which the firm expresses an opinion, although the firm uses the assurance work of the other practitioner, the firm still has ultimate responsibility for the sustainability assurance engagement and the opinion on the sustainability information. As such, interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and the value chain entity might create threats to independence. Section 5700 sets out application material relevant to applying the conceptual framework in such circumstances.

IFAC - International Federation of Accountants

We support the approach referred to in paragraph 113 of the EM. The “knows or has reason to believe” principle is appropriate to apply in this area considering the lower level of independence threats. We also agree this will reduce the monitoring burden on assurance providers. We support the guidance presented in section 5700, however this would be more appropriate to include accompanying Section 5407, as this may otherwise be missed by practitioners. At the very least, a cross reference to section 5700 could be made within 5407 to flag the existence of the approach that should be taken.

MIA Malta - The Malta Institute of Accountants

The Institute is supportive of the approach and guidance proposed in Section 5700 aimed at setting a global benchmark for how to evaluate the Competence, Capabilities, and Objectivity of external experts, and how to identify, evaluate and address the threats that might be created when using the work of an external expert. However, the MIA believes that there is a need for Section 5700 to reflect the importance of having engagement leaders who possess sufficient competence and capabilities in assurance skills and techniques to accept responsibility for the conclusions reached on the engagement.

MIA also believes that to achieve their objective, the proposals of Section 5700 would need the support of regulatory bodies around the globe to ensure that high-quality assurance, related ethics, independence, and quality management standards apply to all parties involved in providing assurance on sustainability-related information. This is crucial to ensure that the public interest will be served.

SOCPA - Saudi Organization for Chartered and Professional Accountants

SOCPA supports the use of the "knows or has reason to believe" principle outlined in Section 5700 (paragraph R5700.4). This established principle avoids placing an unreasonable monitoring burden on the firm. However, Section 5700 might benefit from additional guidance. While the reliance on the general conceptual framework (Section 5120) is sound, providing specific examples of factors to consider when evaluating threats and potential safeguards would be helpful.

WPK - Wirtschaftsprüferkammer (Germany)

The introduction to question 14, above, as well as the introduction to Section 5700 in 5700.2 both refer to a situation only where „a firm uses the work of a sustainability assurance practitioner (who performs the assurance work) at a value chain entity ...“. However, the requirement in 5700.4 does not include such reference so that it might give the impression that it relates to all value chain entities of the client, regardless of their size or importance for the sustainability information or the assurance work. This would make the practical application of the entire provision very challenging for the sustainable assurance practitioner, at least in engagements where the value chain comprises a very large number of entities, even if it is only required on a “knows or has reason to believe” basis.

Therefore, a clarification is necessary that the requirement in 5700.4 relates only to the above-mentioned cases.

In our understanding, this requirement is closely linked with Section 5407, in particular, with alternative b) in 5407.2. A1 and the respective requirements and application material in 5407.4 and 5407.5. If this is the case, the requirement 5700.4 should rather be relocated to the above-mentioned provisions in Section 5407 instead of forming a separate section.

Furthermore, a clear and more comprehensive guidance is considered necessary in respect of what actions the sustainability assurance practitioner is supposed to perform in order to comply with this provision.

Other Assurance Providers and Accreditation Bodies (non-PAs)

JAB - Japan Accreditation Board

Regarding the sustainability reporting specific independence provision (Section R 5405, Section R 5406, Section R 5407, Section R 5700), we recommend further clarifications and provisions to support their appropriate application in practice, including the relationship with related provisions and illustrations. In accordance with “Knows, or has reason to believe” principle, we recommend further clarification with guidance how group sustainability assurance practitioners shall include that interest, relationship or circumstance when identifying, evaluating and addressing threats to independence

Accounting Firms and Sole Practitioners

PKF - PKF Global

We are generally supportive of 14b). However, we encourage the IESBA to consider if an expansion of the wording, or further guidance could be included in Section 5700 to better explain how to apply the part of R5700.4 which reads “...knows or has reason to believe”. In our view, this wording is open to interpretation and could lead to inconsistent application.

RSM - RSM International Limited

We 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 proposed Section 5700, Interests, Relationships or Circumstances Involving Value Chain Entities, of ED-IESSA. However, we do not believe that proposed Section 5700 of ED-IESSA gives enough guidance for a SAP to be able to properly conclude on independence. For example, paragraph R5700.4 of ED-IESSA says that known factors should be considered, but there is no guidance in respect to what to do with that information.

Furthermore, there is no reference or guidance to enquiring of appropriate personnel in order to obtain this information.

Paragraph 111 of the EM states that Section 5700 of the ED applies when ‘a firm uses the work of a SAP who separately performs the assurance work at a value chain entity whose sustainability information is included in sustainability information on which the firm expresses an opinion’. It is unclear when the subsection, ‘Independence Considerations When a Firm Intends to Use the Work of a Sustainability Assurance Practitioner at Value Chain Entity’ (i.e. paragraphs R5407.4-R5407.5 of ED-IESSA), would apply or when Section 5700 would apply or if there is a relationship between the two sections. We recommend that the IESBA clarify the relationship between the stated Section 5407 subsection and Section 5700 of ED-IESSA. If appropriate, we recommend embedding Section 5700 in Section 5407 to help clarify the relationship.

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 “knows or has reason to believe” principle in Section 5700 may lead to an assumption of no threat to independence of a value chain entity in the first place and if they are aware of their interests, relationships or circumstances associated with the value chain entity, only then does the firm expend effort to identify, evaluate and address potential threats of independence of a value chain entity. If auditors assume no material misstatement of an account in the first place and conduct tests only after they are aware of threats, they are more likely to fail to detect material misstatements (Chen and Leitch 1999).

We suggest Part 5 provides guidance on how firms can proactively identify the threat to the firm’s independence of a value chain entity and ensure that threats are at an acceptable level. For example, the firm shall determine whether any threat to independence in accordance with Part 4 (R400.31) and shall document conclusions with relevant supporting discussions (R400.60). We believe this approach is better than the “knows or has reason to believe” principle and thereby alleviate the concerns that the firm does not exercise sufficient efforts to identify the threat to independence of a value chain entity. Such threats include conflicts of interests, family and personal relationships, employment, long association and financial interests.

NSU - Nova Southeastern University

All students provided positive feedback, examples below.

- Threats to independence definitely rise from the existence of personal interest between the firm, its network, or one of the assurance practitioners team members given by family bonds or economic interest with the client or other entities in the value chain. I agree that such relationships need to be evaluated and properly handled since they harbor biases, create conflicts of interest, and ultimately jeopardize the outcome of the engagement undermining the public trust in the reports provided by the assurance practitioner or its team. In my opinion the explanation in Section 5700 on how to evaluate such relationships and address the threats that might compromise the

independence of the assurance engagement is very broad and it would be beneficial to include further details on how to handle circumstances or threads that could impair the independence of the assurance service. Additional guidance can include procedures or protocols on how to manage threats to independence, pressures or conflicts of interest between the client, the practitioner, and the rest of the value chain entities similar in extent or detail to the instructions provided in Section 5270 referring pressure to breach compliance.

- Yes, I 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. It's important to identify and address these threats to ensure that independence is maintained.
- Yes, I support the approach and guidance proposed in Section 5700 for identifying, evaluating, and addressing threats that might be created by interests, relationships, or circumstances with a value chain entity. This guidance helps ensure that independence is maintained in such situations, which is important for the credibility of the assurance process.

Question 14 (b) - Disagree

Regulators and Oversight Authorities, incl. Monitoring Group members

IRBA - Independent Regulatory Board for Auditors

We recognise that the "no reason to believe" principle is intended not to create a monitoring obligation. Regardless, it is expected that the practical consequence will require firms to update their systems and processes to facilitate this test.

Investors and Other Users

DIR - Daiwa Institute of Research Ltd

No. Just getting and reviewing the report from the sustainability assurance practitioner who performs the assurance work at a value chain entity should be permitted as independency consideration.

Public Sector Organizations

AGNZ - Office of the Auditor General of New Zealand

We disagree with the collective provisions in Part 5 because they do not clearly establish the standard of independence that is necessary to enable the users of a sustainability assurance practitioner's report to have confidence in that report. Users' confidence derives not only from actual threats to independence, but also from threats to independence in appearance. Our concern arises because value chain entities can have a material impact on the subject matter of the sustainability assurance engagement. The assurance provided by a sustainability assurance practitioner will be diminished if a consistent standard of independence is not applied to all entities that are included in a sustainability assurance engagement – including value chain entities.

Identification of threats

Paragraph R5310.4 states: “A sustainability assurance practitioner shall not allow a conflict of interest to compromise professional or business judgment.”

Paragraph R5310.5 states: “Before accepting a new sustainability assurance client relationship, engagement, or business relationship, a sustainability assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest ...”

Paragraph R5407.3 states: “If the firm performs assurance work at a value chain entity for the purposes of the sustainability assurance engagement, the firm and members of the sustainability assurance team shall be independent of the value chain entity in accordance with the independence requirements of this Part ...”

In our opinion, these paragraphs establish the processes that should enable significant independence threats (both actual and perceived) to be identified. This is on the understanding that reasonable steps requires the sustainability assurance practitioner to make positive enquiries within the firm (and within the network firm where necessary) about the firm’s “interests in and relationships with” value chain entities that may materially impact on the subject matter of the sustainability assurance engagement. In addition, positive enquiries should also be made of the members of the sustainability assurance engagement team.

The same rigour of enquiry is not demanded in paragraph R5700.4 which states: “When the sustainability assurance team knows, or has reason to believe, that an interest, relationship or circumstance between the firm, a network firm or a member of the sustainability assurance team and the value chain entity is relevant to the evaluation of the firm’s independence from the client, the sustainability assurance team shall include that interest, relationship or circumstance when identifying, evaluating and addressing threats to independence.”

In our opinion, the standard of “knows, or has reason to believe” is a different (and lesser) standard to “shall take reasonable steps”. Our recommendation is that the words “knows, or has reason to believe” should be removed from paragraph R5700.4 and that the paragraph should reflect the “shall take reasonable steps” requirement.

The limits to which a sustainability assurance practitioner can report on a value chain entity in which they have a significant “interest in and/or relationship with”

From our reading, Part 5 does not discuss the circumstance where the sustainability assurance practitioner has an “interest in and/or relationship with” a value chain entity that creates a significant independence threat. Furthermore, Part 5 does not provide further guidance on whether those threats can be mitigated, or whether the threats are so significant that the engagement must be declined. There are various permutations that need to be considered, including:

The nature of the interest or relationship. For example, an ownership or management interest, or when a network firm prepares the sustainability subject matter for the value chain entity;

What is the appropriate response when the sustainability assurance practitioner firm carries out the work on the sustainability assurance engagement at the value chain entity?

What is the appropriate response when another sustainability assurance practitioner carries out the work at the value chain entity that will be used for the sustainability assurance engagement?

In principle, and in our view, the independence requirements that apply to group audits should be applied to sustainability assurance engagements that involve value chain entities.

Independent National Standard Setter

NZAuASB - New-Zealand Auditing & Assurance Standard Board

We consider the “reason to believe” test in section 5700 is reasonable. If the IESBA determines to finalise Part 5 inclusive of these proposals we consider that the clarity of section 5700 could be improved, by adding the following considerations:

Material about what “reason to believe” means, the steps that should be taken, and what should be documented to prove that the practitioner/firm considered the knowledge and information they have.

Explanation from the Explanatory Memorandum could be included directly in the section and detail that there is no expectation for an up-to date database and monitoring activities.

The test could be more clearly linked to the circumstances included in section 5407, for example can it be applied when sustainability assurance practitioner performs work on the value chain entity or is it limited only to situations when another practitioner performs work on the value chain entity?

An example of an objective and reasonable third party.

Professional Accounting Organizations (PAOs)

AE - Accountancy Europe

Accordingly, proposed Section 5700 should take a high-level threats-safeguard approach and provide further guidance on how to apply proposed requirements in practice, especially when a threat has been identified. We also believe that if the sustainability information of the value chain entity has been subject to assurance by practitioners applying the Code, this could already be considered as a safeguard.

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

Overall response: No.

Detailed comments: For the reasons described in response to question 14(a), we do not support the guidance included in section 5700 and believe that it should be removed. The IESBA code requires the use of the conceptual framework when a threat not otherwise addressed by the code is identified, which we believe is sufficient.

Requiring a “knows or has reason to believe” principle with respect to value chain entities will cause confusion and inconsistent application among practitioners.

We also noted that paragraph 5700.2 indicates that this section sets out application material while there is a requirement and application material in this section.

HKICPA - Hong Kong Institute of Certified Public Accountants

We recommend that the IESBA provide clarity on its expectation of work to be performed in order to comply with Section 5700 requirements consistently. In paragraph 113 of the IESBA's explanatory memorandum, the IESBA mentions that the principle of “knows or has reason to believe” used in paragraph 5700.4 is well-established in the extant Code. However, its application in the context of ED-IESSA may pose challenges for both non-PA practitioners who are unfamiliar with such a concept and PA practitioners due to the extended requirements that now encompass relationships between the firm, a network firm, or a member of the sustainability assurance team, and a value chain entity (which is newly introduced in ED-IESSA). The absence of specific guidance and examples in Section 5700 regarding the factors to consider when identifying and evaluating threats makes it challenging for all practitioners to apply the “knows or has reason to believe” approach consistently.

In contrast, Section 5600 offers comprehensive provisions and specific examples to assist practitioners in identifying, evaluating, and addressing threats related to the provision of non-assurance services to a sustainability assurance client. However, Sections 5700 and 5407, which deal with interests, relationships, or circumstances involving value chain entities and independence considerations in assurance work, respectively, do not provide explicit examples or guidance to aid practitioners in identifying and evaluating different threats associated with value chain entities.

Therefore, we recommend that the IESBA provide more guidance with specific examples in Section 5700 to ensure consistency and clarity in addressing the matter.

IDW - Institute der Wirtschaftsprüfer (Germany)

No. We consider that the guidance is too rigid to be applied universally. Rather there should be more scalability to the requirements to enable a proportionate approach depending on the significance of the “value-chain” entities and the information reported on them.

IWP - Institut Österreichischer Wirtschaftsprüferinnen

No. We can't conceive a situation where 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.

Also, in a globalised world, sustainability assurance clients may have hundreds or thousands of value chain entities; it will be virtually impossible to both identify all of them including their related entities and to ensure that there is no relationship between a network and all of these value chain entities or any individuals, taking into account that the sustainability assurance provider has no contractual relationship with these entity and that they are beyond the organisations boundaries of its client.

JICPA - Japanese Institute of Certified Public Accountants

If Section 5407 is revised in line with our comment on Question 13 above, we suggest the IESBA set out application material stating that an interest, relationship or circumstance between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might be relevant to the evaluation of the firm's independence from the sustainability assurance client in Section 5407 and delete Section 5700.

Our suggestion that a sustainability assurance practitioner shall be independent only of material value chain entities is consistent with Section 5407 of the ED, which requires that a firm and members of the sustainability assurance team shall be independent of the sustainability assurance client when the firm performs assurance work on the sustainability information of a value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity. However, we believe that it is difficult to determine what assurance work will be performed at, or with respect to, each value chain entity at the time of entering into a contract for an assurance engagement. So, the firm might not be able to determine whether it is independent of the sustainability assurance client and can perform the sustainability assurance engagement for the client. Therefore, in practice, we believe it is easier to determine the value chain entity of which the firm shall be independent based on its materiality rather than on the types of assurance work. We also suggest the IESBA provide guidance on how to determine the materiality of the value chain entity and continue to refine how to determine materiality as sustainability reporting standards and sustainability assurance standards are developed or revised.

If the IESBA revises Section 5407 as above, we suggest the IESBA add application material stating that an interest, relationship or circumstance between a firm, a network firm or a member of a sustainability assurance team and a value chain entity is relevant to the evaluation of the firm's independence from a sustainability assurance client, and delete Section 5700.

MIA-Malaysian - Malaysian Institute of Accountants

If the IESBA determines to retain Section 5700, we suggest combining Sections 5700 and 5407 as well as provide clarity that Section 5700 only applies when a firm uses the work of another sustainability assurance practitioner at the value chain entity (i.e. as per paragraph 5700.2 and paragraph 5407.2 A1 (b)).

On the application of paragraph 5700.4, we would seek further clarity and practical guidance on the “knows, or has reason to believe” principle. We note from the Explanatory Memorandum that the IESBA does not intend that the application of the “knows or has reason to believe” principle create a monitoring obligation on the firm. As such, there is concern that this may set unrealistic expectations amongst regulators and other stakeholders as to what might reasonably have been known.

Accounting Firms and Sole Practitioners

Assirevi - Association of Italian Audit Firms

Furthermore, the evaluation principle invoked for such situations is the "Knows or has reasons to believe" which should not imply active research, but the need to assess these situations if encountered; in this respect the Exposure Draft is not clear on how to detect these situations and what it is necessary to do if you come across them.

BDO - BDO International Limited

BDO disagrees, with the following additional comments:

Whilst the approach taken in Section 5700 appears to be less onerous than the provisions of Section 5407, BDO calls for some further clarity in respect of the specific actions that are expected of firms when 'knowing' about relevant interests or relationships.

DTTL - Deloitte Touch Tohmatsu Limited

If this section remains in the IESSA, we urge the Board to consider further guidance for practitioners to understand how to apply the provisions, and if threats are identified, how the practitioner is expected to apply safeguards as these have not been provided in the IESSA. We also suggest including Section 5700 within Section 5407 rather than as a standalone section.

EY - Ernst & Young Global Limited

As noted in our response to 14.(a) above, we believe threats are at an acceptable level when the other SAP who complies with Part 5 performs the assurance work at a value chain entity and retains sole responsibility for the assurance report, and therefore do not believe Section 5700 is necessary. Also, we believe a “reasonable and informed third party” test would support that any threats are at an acceptable level. However, if the IESBA decides to pursue their proposed approach in Section 5700, we believe further guidance is required in order to be able to appropriately apply this approach and have the following comments.

(A) We understand that Section 5700 is to be read in connection with situations described in Paragraph 5407.2 A1 (b) and R5407.4, although it is not clearly mentioned and may need further clarification for non-PAs.

(B) We acknowledge the fact that the concept of “knows, or has reasons to believe” is not new; however, we believe it will be very difficult to implement R5700.4 in practice due to the evolving scope of value chain entities included in the sustainability information and that clients might have changes in value chain entities throughout the year. If R5700.4 is retained, we strongly believe Section 5700 also needs to clearly recognize safeguards such as assurance work performed by another SAP that has complied with Part 5 as mentioned in our response to 14.(a) above, or a review performed by an appropriate reviewer.

(C) Section 5700 addresses relationships or other circumstances involving value chain entities, while Section 5407 addresses independence considerations relating to assurance work at or with respect to a value chain entity. We suggest that the two sections be combined and expanded with more application material and examples.

GTIL - Grant Thornton International Limited

GTIL does not support the definition of ‘value chain’ in the context of sustainability assurance engagements. The IASSB is still discussing value chain entities from an assurance perspective, so it is unclear how the Board determined what the implications and impact on these entities could be from an independence perspective.

There is limited guidance and application material in the proposed standard to help practitioners determine what types of relationships, interests, or circumstances involving a value chain entity could bear on independence. Furthermore, the independence requirements with respect to value chain entities is very broad.

Accordingly, we believe this could lead to inconsistent application of the standard and potentially lead to significant compliance issues when trying to monitor independence to value chain entities.

Therefore, we recommend IESBA consider value chains and the ethical/independence requirements for value chains in a separate project, once the IAASB issues their sustainability assurance guidance, to ensure that the IESBA requirements align to and are supportive of the assurance standards.

KMPG - KPMG IFRG Limited

Paragraph R5700.4 requires the SAP to evaluate threats to independence when they know or have reason to believe that such threats are relevant to the evaluation of the firm's independence from the client. The application of the knows or has reason to believe principle exists in other sections of the IESBA Code. While not expressly stated in the Code, the explanatory memorandum as well as a statement by the IESBA confirm that the knows or has reason to believe principle does not need to be operationalized. Rather, the knows or has reason to believe principle is a reminder to apply the conceptual framework when appropriate.

While applying the knows or has reason to believe principle may not require operationalization, we do not view the risks associated with VCEs to warrant such inclusion. We believe that a VCE's sustainability assurance report is sustainability information that is provided by the client. We are not aware of any other circumstance that requires consideration of the firm's independence with respect to client evidence that is derived from a third party. For example, a firm might obtain a SOC report on controls at a third-party service provider used by an audit client. The firm does not need to consider independence at that third-party service provider.

MAZARS - Mazars Group

Notwithstanding our comments above, if there were any situations that give rise to threats to independence it is imperative that the provisions of the Code are proportionate and capable of application in practice. For example, where the sustainability assurance engagement is a large, multi-national entity operating across multiple industries and sectors (e.g. an entity like Shell), it will likely have many thousands of entities in its value chain, many of which may be audited and have sustainability assurance provided by the auditor of the client. In this situation, it would be wholly disproportionate to expect a full independence assessment across the group and its value chain.

We note that the IESBA sets out in the explanatory memorandum that, recognising that the threats will generally be lower, it proposes that such threats be addressed on the "knows or has reason to believe" principle, as set out in R5700.4. It goes on to state that the IESBA does not intend that the application of this basis creates a monitoring obligation on the firm" and there is no expectation that up-to-date databases of the client value chain entities will be required, or that changes to the client's value chain during the period needs to be monitored. This is not clear in the proposed Section 5700 and, to avoid any doubt or differing interpretations across jurisdictions or between regulators, the "knows or has reason to believe" principle and the intentions of the IESBA (set out in the explanatory memorandum) should be made clear in application material supporting R5700.4.

In addition to the explanation required in the previous paragraph, IESBA should provide examples of factors to evaluate threats and potential safeguards to support consistent application of the proposals.

PP - Pitcher Partners Advisors Proprietary Limited

The “value chain” concept is still unclear, and as such we believe it would be inappropriate and premature to extend independence generically to entities within a value chain. It is currently unclear which entities might be in a value chain at the inception of a sustainability engagement. Thus, assurance providers could be commencing in good faith and then resigning due to independence issues.

Any extension of independence beyond the directly contracted assurance client is overly complex and potentially unworkable. With the interconnectivity of businesses in industries it may be almost impossible to comply with the independence requirements for value chain entities, especially in scenarios where the sustainability assurance has to be provided by the financial statement auditor.

PwC - PricewaterhouseCoopers International Limited

We also have concerns regarding the application of the “knows or has reason to believe” test in this context. There is a risk of a range of different interpretations by practitioners, and between practitioners and regulators and other stakeholders as to what might reasonably have been known (despite the clarification in the explanatory memorandum that this does not establish a monitoring requirement). We suggest that this clarification might usefully be included in the standard as application material.

Question 14 (b) - No Specific Comments

Regulators and Oversight Authorities, incl. Monitoring Group members

ACRA - Accounting and Corporate Regulatory Authority (Singapore)

ESMA - European Securities and Market Authority

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

Preparers and Those Charged With Governance

Asma Jan Muhammad

BD - Bruno Dirringer

ICFOA - International CFO Alliance

Public Sector Organizations

GAO - US Government Accountability Office

Professional Accounting Organizations (PAOs)

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

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

FACPCE - Federación Argentina de Consejos Profesionales de Ciencias Económicas

GAA - Global Accounting Alliance

INCP - National Institute of Public Accountants of Colombia

IPA - Institute of Public Accountants (Australia)

ISCA - Institute of Singapore Chartered Accountants

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

Accounting Firms and Sole Practitioners

BKTI - Baker Tilly International

Academia and Research Institutes

NRS - Professor Nicole Ratzinger-Sakel

Others

IBA - The International Bar Association

IIA - The Institute of Internal Auditors