

IESBA Sustainability**Question 13 - Agree****Regulators and Oversight Authorities, incl. Monitoring Group members****BAOA - Botswana Accountancy Oversight Authority**

We support the provisions in Section 5407 because they ensure that adequate safeguards regarding independence are put in place.

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

NASBA supports the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity.

Public Sector Organizations**UNCTAD - UNCTAD's African Regional Partnership**

100% of the respondents support the provisions in Section 5407 for assurance work independence considerations for a value chain entity.

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

Yes, we support the provisions of Section 5407 that address independence considerations when assurance work is performed at, or with respect to, a value chain entity. Section 5407 and 5700 explicitly address, in the proposed IESSA, the independence considerations applicable when assurance work is performed at or with respect to a value chain entity for the purposes of an assurance engagement. The sustainability. We consider that the considerations raised in the ED are appropriate.

BICA - Botswana Institute of Chartered Accountants

- Supporting the provisions in Section 5407 that address independence considerations when assurance work is performed at, or with respect to, a value chain entity is important for maintaining ethical standards and ensuring the integrity of the assurance process.

CFAR - Chamber of Financial Auditors of Romania

We support the provisions in Section 5407. We agree with the proposed requirements outlined in paragraphs 106 to 110, which provide guidance on various scenarios that may arise when conducting assurance work involving value chain entities.

CPAC - Chartered Professional Accountants Canada Public Trust Committee

Yes, the PTC supports the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity. However, we encourage the IESBA to continue to engage with PAs and non-PAs performing these services and monitor implementation to identify examples of matters that could arise in sustainability assurance engagements, and how such threats might be addressed. We also think that NSS would be a helpful source of information in this regard.

IICA - Institute of Indonesia Chartered Accountants

Yes

IPA - Institute of Public Accountants (Australia)

IPA supports the proposed provisions contained in Section 5407. Sustainability assurance providers would benefit from IESBA developing supporting materials, including practical examples, to illustrate how these provisions would work in practice.

MICPA - Malaysian Institute of Certified Public Accountants

We agreed with the proposal.

SOCPA - Saudi Organization for Chartered and Professional Accountants

SOCPA agrees with the provisions in Section 5407 as it provides guidance on the independence considerations when assurance work is performed at, or with respect to, a value chain entity in the context of sustainability assurance engagement.

Academia and Research Institutes

DIRC - Deakin University Integrated Reporting Centre

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

Question 13 - Agree With Comments

Regulators and Oversight Authorities, incl. Monitoring Group members

ACRA - Accounting and Corporate Regulatory Authority (Singapore)

We recognise the importance of fostering public trust in assured sustainability information, particularly where incomplete information from the value chain in Scope 3 emissions could significantly impact investment and financing decisions.

Our stakeholders have highlighted the following potential practical challenges in applying the proposed Section 5407:

- at the point of evaluating client acceptance or continuance, the SAPs may lack the relevant and reliable information to identify and evaluate the threat to independence concerning a value chain entity. For instance, their clients may not furnish them with the updated and/or comprehensive list of value chain entities;
- considering the scarcity of sustainability expertise in the market, an advisory arm of SAP may have assisted value chain entities to establish the system and/or providing data for sustainability reporting. If the collective contribution is material, this could elevate the risk of a self-review threat; and
- if water or electricity is supplied by one or two suppliers in a jurisdiction, these suppliers would be the key value chain entities for many reporting entities. If these suppliers require consultancy services to establish system for sustainability reporting, the advisory arm of the SAPs may refrain from bidding to avoid the risk of self-review threat

to the other reporting entities. This could limit the choice of service providers for these suppliers, potentially leading to higher costs.

We suggest commencing with 'baseline' requirements, which are aligned with our existing audit procedures for bank balances and accounts payables. During these audits, financial auditors will assess the independence of these counterparties, without the need to obtain independence confirmation from banks, suppliers, or their auditors. The more rigorous independence requirements could be introduced later, when the performance standard relating to value chain entities takes effect.

This approach would concentrate on identifying, evaluating, and managing the most pertinent and significant independence risks related to the assurance engagement. It would also provide flexibility for SAPs to customise procedures to suit the client's specific circumstances.

CEAOB - Committee of European Auditing Oversight Bodies

It would be helpful for ED-IESSA to expand on the independence statement in the assurance report of the SAP at a value chain entity the practitioner may rely on (R5407.4A1). Clarification is needed concerning the content of the independence statement and what the SAP at a value chain entity should have reported on (e.g. reference to the independence requirements complied with) so that the practitioner is permitted to rely on it. This would ensure the SAP at the value chain has complied with the same high standards of ethical behaviour and independence as the practitioner.

As for the confirmations from another practitioner in section 5406 of the Code, we believe that the other practitioner should be requested to provide the confirmations in R5407.5 in writing.

We are of the view that key issues around independence and objectivity considerations relating to value chain entities are not resolved in ED-IESSA. Additional scrutiny is needed to determine how to address the different scenarios in a sustainability assurance engagement where information from a value chain entity is included in the sustainability reporting of an assurance client in a practical way.

ESMA - European Securities and Market Authority

Both Sections 5406 and 5407 require that the firms ascertain the independence respectively of another practitioner or of a sustainability assurance practitioner who performs assurance work at a value chain entity. ESMA recommends that this confirmation is requested in writing. Furthermore, ESMA recommends clarifying the definition of "Another practitioner" in Part 5 based on concrete cases which the Code aims at capturing.

IAASA - Irish Auditing & Accounting Supervisory Authority

It would be helpful for ED-IESSA to expand on the independence statement in the assurance report of the SAP at a value chain entity that the practitioner may rely on (R5407.4A1). Clarification is needed concerning the content of the independence statement and what the SAP at a value chain entity should have reported on (e.g. reference to the independence requirements complied with) so that the practitioner is permitted to rely on it. This would ensure the SAP at the value chain has complied with the same high standards of ethical behaviour and independence as the practitioner.

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IFIAR - International Forum of Independent Audit Regulators

It would be helpful for ED-IESSA to expand on the independence statement in the assurance report of the sustainability assurance practitioner at a value chain entity the practitioner wants to rely on (R5407.4A1). Clarification is needed as to what the statement should entail and the sustainability assurance practitioner at a value chain entity is required to report on (e.g. reference to the independence requirements complied with). This would ensure both the firm and the sustainability assurance practitioner have followed the same high standards of ethical behaviour and independence.

As for the confirmations from another practitioner in section 5406 of the Code, confirmations requested from the practitioner at a value chain entity should be received in writing (paragraph R5407.5).

We are not convinced that the issues around independence considerations relating to value chain entities have been resolved in ED-IESSA. We feel that more needs to be done to address the different scenarios in a sustainability assurance engagement where information from a value chain entity is included in the sustainability reporting of an assurance client.

IOSCO - International Organization of Securities Commissions

IOSCO is supportive of the IESBA's inclusion of provisions as it relates to the value chain. However, we believe certain provisions could be strengthened and/or clarified to promote consistent application.

We generally agree with the overall concept in proposed Part 5 that each SAP should be independent from the sustainability assurance entity where they have been engaged to perform a sustainability assurance engagement. However, we believe the proposed language is complex and may result in understandability and implementation challenges.

UKFRC - United Kingdom Financial Reporting Council

We support most of the provisions in this section, with the exception of R5407.6.

In cases where the firm assures sustainability information of a value chain entity, without carrying out assurance work at that entity, R5407.6 requires the firm only be independent of the sustainability assurance client, and not of the value chain entity.

We accept that a client's sustainability information may include information from many value chain entities, and it may not be proportionate to require independence in respect of all value chain entities in all scenarios. However, in scenarios where a client's sustainability information consists primarily of material value chain entity information and the firm only

carries out work at the client, the firm need not be independent of the entity that produces the bulk of the information to be assured. This may be an issue in some scenarios, such as if the firm produced the information provided by the value chain entity.

Therefore, we believe the firm should be required to consider, based on the nature of the information to be assured and the assurance work, if a reasonable and informed third party would conclude that they should be independent of both the client and certain value chain entities.

Investors and Other Users

SAAJ - The Securities Analysts Association of Japan

However, we have the following suggestions for improvement:

The reporting boundary for sustainability information is broader than the reporting boundary for financial statements because the former includes value chain entities. On the other hand, we understand that the IAASB's ED-5000 does not clarify assurance procedures at, or with respect to, value chain entities and that the above types (a), (b) and (c) are determined only by the IESBA. Since the assurance and independence standards should operate under the same definition of categorization, we suggest that the IESBA encourage the IAASB to include in ISSA 5000 the same definition of categorization of assurance procedures and how they operate at, or with respect to, value chain entities. In particular, as it is unclear whether type (c) can be considered an effective and independent assurance for sustainability information of value chain entities, we encourage the IESBA to clarify this matter.

As it may be possible for types (a), (b) and (c) to be combined in the same value chain entity, we encourage the IESBA to clarify the treatment of such cases.

In assurance engagements at, or with respect to, value chains, there is a wide variety of value chain entities and their assurance practitioners. However, the proposed provisions on independence are too conceptual and difficult to understand only by text. To improve the understandability for preparers, users, and assurance practitioners, we encourage the IESBA to provide guidance with specific categorization methods and an explanatory memorandum with illustrative examples and diagrams.

Since there are no procedures at, or with respect to, value chain entities for auditing financial statements, we believe that new methods of supervision and monitoring need to be established in each jurisdiction regarding the independence of sustainability assurance engagements at, or with respect to, value chain entities. In this regard, we encourage the IESBA to cooperate with the IOSCO on this matter.

We basically agree with the proposals for the following three types of assurance procedures performed by the sustainability assurance practitioner at, or with respect to, a value chain entity (paragraph 106 of the Explanatory Memorandum), and the independence requirements for each type.

- Perform the assurance work at the value chain entity;
- Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or

- 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.

Preparers and Those Charged With Governance

ICFOA - International CFO Alliance

Supply Chain independence: Implementation will require significant implementation guidance to support users in practically applying the boundaries within the value chain for sustainability assurance purposes.

Public Sector Organizations

UNCTAD - UNCTAD's Latin America Regional Alliance

I do support 80% of respondents

I am not sure 20% of respondents

Independent National Standard Setter

APESB - Accounting Professional & Ethical Standards Board (Australia)

APESB agrees that independence should be a consideration for assurance work in relation to a value chain entity. When considering sustainability information that may be publicly reported, information about scope 3 emissions, which may be the most significant source of emissions for some entities, will generally need to be sourced from value chain entities. It is important that this information is reliable and accurate.

However, APESB is concerned about the scope of the proposed provisions in Section 5407, the potential to circumvent the obligations, and the challenges to practical implementation.

The scope of the provisions in proposed Section 5407 is very broad and could be read as applying to all value chain entities. There is no consideration of whether the value chain entity information is significant to the sustainability information being displayed by the sustainability assurance client. Paragraph 112 of the IESSA Explanatory Memorandum states that the level of threats to independence involving a value chain entity will generally be low. Therefore, the IESBA should consider whether tempering the scope of the provisions would still appropriately address the relevant threats to independence. For example, where the value chain entity is outside the organisational boundaries of the sustainability assurance client, the practitioner could consider independence threats for significant entities using set selection criteria, e.g., select the five highest contributors for reported information or those that contribute 20% or more of the reported information. The practitioner should document the rationale behind the selection and application of the selection criteria. APESB believe this would ensure that the costs of identifying threats to independence across dynamic value chain entities are not prohibitive and would not detract from the quality of the assurance service provided.

APESB believe that implementing such a proportionate approach would be consistent with the way in which boundaries have been included in the extant group audit provisions. The group audit provisions are deliberately proportionate to avoid disproportionate costs and burdens on firms to monitor and track all the interests, relationships and circumstances involving subsidiaries of sister entities for example.

The proposed Section sets out four requirements for independence for value chain entities, depending on where and by whom the assurance work is performed. It is not clear why the proposed paragraph R5407.6 is a requirement, as there are no changes to the independence requirements for the sustainability assurance practitioner in this scenario. As such APESB believes this paragraph should be guidance rather than a requirement.

We also note that under proposed paragraph R5407.6 if assurance over the value chain entity information is performed at the sustainability assurance client level, no consideration of independence for the value chain entity is required, subject to the general catch-all provision in proposed Section 5700. APESB is concerned that practitioners may seek to only adopt this approach to circumvent the other requirements to address threats to independence with value chain entities.

Stakeholders have expressed concerns regarding the practicality of the value chain entity provisions noting that the broad nature of independence considerations make it challenging to practically operationalise the requirements. One concern raised was the administrative burden associated with requesting confirmations from many value chain entities to support the sustainability assurance practitioner's independence when intending to use their assurance work. The IESBA should consider the inclusion of additional guidance or non-authoritative materials on the confirmation of independence from other sustainability assurance practitioners in relation to value chain entities.

APESB suggest considering a transitional period of 2-3 years for the provisions relating to value chain entities. This will allow the market and practices for sustainability reporting and assurance to mature and may circumvent the issues caused by the currently limited amount of assured sustainability information available from value chain entities.

Professional Accounting Organizations (PAOs)

ACCA - Association of Chartered Certified Accountants

We support the logic behind the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity (VCE). However, we believe that completing the independence considerations for value chain entities will be particularly challenging to carry out in practice, specifically as these entities are outside the group for audit purposes and therefore not part of existing work for example. This point was also emphasised by practitioners during our outreach, with some questioning if the VCEs are outside of the group how this information will be collected in a timely and cost-effective manner and how potential breaches would be monitored in this instance.

AE - Accountancy Europe

Yes, we partially support the provisions in Section 5407.

For reporting purposes, value chain will include more than individually identifiable entities. For the entities within the value chain of sustainability assurance client, it will be extremely challenging to comply with proposed paragraph R5407.3 that requires SAP to be independent of the value chain entity if assurance work is performed at the value chain entity. Even though this paragraph does not spell it out, paragraph 108 of the explanatory memorandum suggests that sustainability assurance team will need to be independent from not only the value chain entity, but also its relevant related entities. This is quite

onerous and may, in practice, lead SAPs not to seek to perform work at the value chain entity and impair the quality of the assurance engagement. Finally, as noted in our response to question 14, in today's business environment the location of the work performed cannot be a relevant and thus determining factor

CPAA - CPA Australia

Obtaining assurance on sustainability information of the value chain entity provided to the sustainability assurance client is clearly complex and potentially would have significant impacts on small- and medium-sized practitioners who often provide services to smaller value chain entities.

It is difficult to imagine situations where a value chain entity would be amenable to a sustainability assurance practitioner, engaged by another entity further up the value chain, undertaking assurance work at that value chain entity. Conceivably, it may mean that that value chain entity would need to “open itself up” to the numerous different sustainability assurance practitioners, which have been engaged to obtain assurance by client entities further along that value chain and to which the value chain entity provides good or services. Therefore, it is not clear that 5407.2 A1 (a) is a realistic or practical option.

The independence requirements related to 5407.2 A1 (b) – i.e., a statement of independence in the sustainability assurance practitioner's report – seem to be insufficient. As noted in response to Question 11, a focus only on independence seems to ignore the need to determine the competence of the other sustainability assurance practitioner. A lack of competence may lead to a practitioner asserting they are independent when they are not, especially when that other practitioner may not be a professional accountant and may not have a thorough understanding of the complex independence requirements in this standard. Furthermore, no guidance and/or direction is provided to the professional accountant or sustainability assurance practitioner as to what should be done if the other practitioner refuses to provide the information requested with respect to their independence.

Finally, with respect to 5407.2 A1 (c), when the firm performs the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity, it is noted that there is no requirement for the members of the sustainability assurance team to be independent of the value chain entity. They must only be independent of the assurance client. Section 5700 suggests that threats to the independence of the practitioner vis-à-vis a value chain entity need to be considered, and this implies that being independent of the value chain entity is required. However, this is not what is stated in paragraph R5407.6. CPA Australia recommends that the IESBA considers clarifying this point.

EFAA - European Federation of Accountants and Auditors for SMEs

We have some reservations about the provisions in Section 5407.

While we welcome the desire to be flexible and pragmatic through the provision of three options for gaining assurance in relation to value chain entities within the application guidance, we believe these options may often prove impractical.

Performing work at the value chain entity (5407.2 A1 (a)) will be impractical in many cases, especially where the value chain entity transacts with many companies and may receive

similar requests from their assurance providers. It would not be possible or likely for access to be allowed to complete work in such instances.

Gaining assurance from another practitioner (5407.2 A1 (b)) may also be challenging as those practitioners may not understand independence requirements nor be able to confirm independence in some cases.

Performing 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 (5407.2 A1 (c)) will often be required. This section creates no requirement for members of the sustainability assurance team to be independent of the value chain entity.

Accordingly, we urge IESBA to consider further the appropriate provisions in Section 5407.

ICAS - The Institute of Chartered Accountants of Scotland

We would highlight that we believe value chain entities is a complex area and that more work is required by IESBA to arrive at a practicable approach. We have set out more detailed comments below.

Paragraph 109 of the Explanatory Memorandum states the following:

“Recognizing that the value chain entity’s sustainability assurance practitioner might have already carried out the relevant assurance work, and that such work might be used for the purposes of various other entities’ sustainability assurance engagements, the IESBA proposes a pragmatic approach. That is, in such circumstances, the firm may rely on a statement of independence in the sustainability assurance practitioner’s report to meet the above requirement. (See paragraph 5407.4 A1 in Chapter 1.)

However, if that practitioner has not provided a statement of independence in relation to the assurance work at the value chain entity, proposed Section 5407 makes it a responsibility of the engagement leader to request that practitioner to confirm whether:

- o Where the work has yet to be carried out, the practitioner will comply with the relevant ethics, including independence, provisions of Part 5; or
- o Where the work has already been carried out, the practitioner understands and has complied with the relevant ethics, including independence, provisions of Part 5. (See paragraph R5407.5 in Chapter 1.)”

We believe that there may be issues in identifying a client’s value chain entities, and the sheer volume of value chain entities at some clients, including through potentially multiple layers of suppliers, may make it impossible in practice. Indeed, it may be that there is currently so much that is not known in this area that it is too early to address these matters. It might be that a full independence confirmation may not be possible at this stage and perhaps a threats and safeguards approach as per the conceptual framework and confirmation around conflicts of interest and self-review threats might be more practical.

We note that it may be possible to rely on a statement of independence from a sustainability assurance practitioner’s report, if that sustainability assurance practitioner is another firm subject to the requirements of Part 5. However, how can reliance be placed on that statement if a firm does not have a system of quality management in place? What if the sustainability assurance practitioner is a non-PA who is not subject to Part 5? How can

reliance be placed on their statement of independence, particularly if the work has already been carried out?

As with Section 5406 above, there is no indication in Section 5407 as to what is to be done if independence is not confirmed.

It may be that if you had a valid report from the sustainability assurance practitioner –i.e. we relied on the report of XYZ in the value chain – you may be able to carve it out. This may not be a perfect answer but perhaps more practical.

Paragraph 5407.2 A1 (c) and paragraph 5407.6

We also note that in accordance with paragraph 5407.2 A1 (c) and paragraph 5407.6 “If the firm performs the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity, the firm and members of the sustainability assurance team shall be independent of the sustainability assurance client in accordance with the independence requirements of this Part.”

We understand that as per paragraphs R5407.3 and R5407.4 (and paragraph 5407.2 A1 (a) and (b)), independence is required for those performing sustainability assurance work at the value chain entity. However, our interpretation of paragraph 5407.6 (paragraph 5407.2 A1 (c)) is that the assurance provider can do assurance work on the sustainability information of the value chain entity without carrying out assurance work at the value chain entity, when the information is provided by the sustainability assurance client, in which case the firm doesn't need to be independent of the value chain entity itself, only the sustainability assurance client.

We are not clear as to why the location of where the firm performs the assurance work impacts the independence requirement.

ISCA - Institute of Singapore Chartered Accountants

Practical challenges might be faced in addressing independence considerations relating to value chain entities (VCEs) given how extensive a value chain could be and considering information relating to VCEs might not be easily accessible as the VCEs may not be part of the client's group structure.

For example, a firm might provide mandatory assurance over Scope 1 and Scope 2 emissions of client A which forms Scope 3 emissions of another sustainability assurance client B. During the client or engagement acceptance phase of client B, the firm might not have access to information on client B's VCEs and to find out if client A is a VCE.

In addition, compliance with proposed Section 5407 is anticipated to be monitoring intensive for most firms due to the multitude of entities that might be caught within scope of VCEs. For example, a client that is a utilities provider could be a material supplier and VCE of many other entities. Should the proposed Section 5407 go forward, it may lead to a scenario that limits choice in the market by clients for SAPs, as there may not be sufficient competent and independent practitioners to perform SAEs, or a scenario where there is inability for some SAPs to obtain sufficient appropriate evidence, leading to scope limitations. Neither of these scenarios would be in the public interest. It would also limit the ability of companies to engage service providers for non-assurance services without

creating a self-review threat, especially in the case of companies that may be in the value chain of many entities such as key utilities providers.

Consistent with our response to Question 11, if the SAP determines to use the work of another practitioner where the work has already been carried out, IESBA might consider granting a transition period for the other practitioner to meet the independence requirements under Part 5 to comply with proposed paragraph R5407.5.

JICPA - Japanese Institute of Certified Public Accountants

We understand that three types of assurance procedures at, or with respect to, a value chain entity are indicated and the related independence provisions are set out in Section 5407. However, we believe that how to perform sustainability assurance procedures relating to a value chain entity is not clearly set out in any sustainability assurance standards, including IAASB's ISSA 5000, and such assurance procedures should be developed as practice matures.

In response to this situation, we suggest the IESBA not indicate the three types of assurance work but instead revise the proposed provisions to a single requirement that a sustainability assurance practitioner shall be independent of material value chain entities. A material value chain entity is specified out of entities that are within the reporting boundary but outside the organizational boundary of a sustainability assurance client and prepare all or part of the sustainability information on which the sustainability assurance practitioner expresses an opinion (hereafter referred to as "value chain entity" in this comment). We also suggest the IESBA provide specific guidance on how to confirm the sustainability assurance practitioner is independent of the value chain entity. We believe that moving specific considerations into guidance is advantageous as they can be flexibly revised as practice matures.

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. We also suggest the IESBA add application material stating that an interest,

relationship or circumstance between another practitioner and a value chain entity is relevant to the evaluation of the firm's independence from a sustainability assurance client. Furthermore, value chains have an ever-changing nature, so entities that receive NAS from a sustainability assurance practitioner might become value chain entities, which is different from the initial assumption at the time of entering into contracts for services. Therefore, we suggest the IESBA add application material stating that when a sustainability assurance practitioner is not independent of a value chain entity, using the work of another practitioner at the value chain entity might reduce threats to independence to an acceptable level.

KICPA - Korean Institute of Certified Public Accountants

Considering the practical confusions and complexities caused by the difference between the ISSA 5000 and the IESSA, the KICPA proposes that the IESSA requirements for another practitioners and practitioners performing assurance work at a value chain entity (VCE) should be aligned with the ISSA 5000.

The ISSA 5000 consistently applies to the practitioner performing assurance work at a value chain entity the same requirements and application materials relevant to another practitioner, without distinguishing another practitioner from the practitioner performing assurance work at a VCE based on their location in terms of the organizational boundary.

In addition, the practitioner can't direct, supervise or review the work of another practitioner under the ISSA 5000. If the practitioner can direct, supervise or review the work of another practitioner, another practitioner shall be defined as a member of the engagement team, thus subject to all independence requirements under the Code. However, under the IESSA, any practitioner who separately performs the assurance work at a VCE falls within the scope of Section 5407 irrespective of whether the firm is able to direct, supervise or review the work of that practitioner. Therefore, it is interpreted that the practitioner performing the assurance work at a VCE shall be subject to the limited independence requirements under Section 5407 (required to be independent of a value chain entity only) even when the firm directs, supervises or reviews the work of that practitioner. This may result in discrepancy in the scope of independence requirements between these two standards.

The KICPA also hopes for enhanced clarity of the standards to enable the reader to have a clear understanding about how to differentiate between component practitioner, another practitioner and practitioner performing assurance work at a value chain entity and resultant differences in terms of independence considerations. It is hard to understand the differences intended by the standards unless referring to the diagram provided in the appendix 2 of the Explanatory Memorandum of the ED. Therefore, we hope that a non-authoritative guidance will provide examples covering diverse scenarios.

MIA Malta - The Malta Institute of Accountants

MIA supports the view that the provisions of Section 5407 are offering global ethical guidance on the independence considerations when sustainability assurance work is performed at, or with respect to, a value chain entity. The Institute believes that by clarifying who is responsible for compliance with the independence requirements in particular circumstances, the understandability and usability of the code would be enhanced, thereby facilitating its adoption, effective implementation, consistent application and enforcement.

A specific definition of a value chain entity is needed to help the provisions of Section 5407 to provide considerably more guidance for making assumptions with respect to reporting boundaries to identify, evaluate and address threats of independence when a firm performs assurance work, or uses assurance work performed at, or with respect to, a value chain entity.

MIA-Malaysian - Malaysian Institute of Accountants

We are generally supportive of the provisions in Section 5407 in addressing the independence considerations when assurance work is performed at or with respect to, a value chain entity (VCE).

However, we have reservations in regard to the practical implementation of the proposed requirements for VCEs. As the sustainability assurance client does not have control (direct or indirect) of the value chain entities, it may be challenging to maintain independence with these entities. VCEs are not obligated to provide information to the SAP for evaluation of independence. This circumstance may potentially prevent SAP's from offering sustainability assurance services in the market when independence with the VCE cannot be ensured. We would, therefore, propose that the independence consideration in respect of VCEs be an encouragement rather than mandatory.

With respect to paragraph R5407.4, a sustainability assurance practitioner at a value chain entity may not apply the Code and therefore the firm cannot be satisfied that the "practitioner is independent of the value chain entity in accordance with the independence requirements of this Part". It is unclear from the proposals whether and, if so, how, the IESBA intends to address the concept addressed in ISSA 5000 of practitioners applying "other ethical requirements, including independence, that are at least as demanding as the IESBA Code".

In regard to the supporting provisions outlined for paragraph 5407.2.A1 (b), we agree in principle that if the firm intends to use the work of a sustainability assurance practitioner who performs assurance work at a value chain entity, the firm shall be satisfied that the value chain sustainability assurance practitioner is independent of the value chain entity.

However, this section is silent on the implications of when the sustainability assurance provider is able to direct, supervise and review the work of the sustainability assurance practitioner of the value chain entity. In such circumstances, we believe that the other practitioner would be deemed to be a component practitioner (and be included in the "engagement team" definition) and therefore subject to Section 5405. If the IESBA agrees, it should be clear that the requirements in Sections 5406 and 5407 do not apply.

If, however, the intent is that, even when direction, supervision and review is possible, Section 5405 should not apply with respect to a value chain entity (i.e., that Section 5407 applies instead), we believe this needs to be clarified.

We also foresee a number of practical challenges around the timely and consistent identification of value chain entities and how the firm would manage compliance with the requirement in paragraph R5407.3 given that:

- Value chain entities may change from time to time;
- Materiality considerations may change from time to time or management's decisions as to what is material for reporting purposes may change during the period; and

- There could be a high number of such entities, given that the scope of the value chain may be extensive, can be multi-layered and these will change depending on the metric being reported on.

WPK - Wirtschaftsprüferkammer (Germany)

We principally support the provisions in Section 5407. However, we would like to suggest to clarify what “Perform the assurance work at the value chain entity” actually means in order to avoid any misunderstanding that it refers to a physical presence of the sustainability assurance practitioner at the premises of the value chain entity and to achieve a clear distinction between the alternatives a) and c).

Other Assurance Providers and Accreditation Bodies (non-PAs)

IAF - International Accreditation Forum

We agree with Section 5407.

In addition, when referring to “determine that assurance procedures need to be performed” in 5407.2 A1, it is believed useful introducing the concept of “universally acceptance”, like what already happens with “recognized international standard” [Draft of Green Claim Directive (EU)] and “certification scheme established by a public authority” [Directive (EU) 2024/825] for the different subject matters.

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

We recommend IESSA to provide the further detailed provisions and its guidance in order to promote consistency of practices for some sustainability specific matters, such as providing advisory services of ESG strategy and providing NAS in value chain entities.

We support establishing ethical and independence standards equivalent to those for financial statement audits, and standards that are profession-agnostic and framework-neutral. Considering that there are matters specific to sustainability assurance, such as confirming the independence of value chain companies, it is preferable to have an option with transitional measures rather than regulations.

It is appropriate that IESSA has the same ethical and independence standards as financial statement audits. If you are considering immediate application, we recommend IESSA to provide option that the country can determine the transitional measures. (For example, about 1 year) It is possible to comply with the standard even in a framework that is not limited by occupation.

Accounting Firms and Sole Practitioners

EY - Ernst & Young Global Limited

In general, we agree that independence considerations should be addressed when assurance work is performed at, or with respect to, a value chain entity. However, we believe this is one of the more complicated matters the IESBA is attempting to address in its proposals, especially since reporting and assurance frameworks are continuing to evolve. We therefore believe it would be prudent for the IESBA to consider a project to timely monitor and identify emerging issues, including those related to value chain entities, that present challenges to the application of the provisions of Part 5 arising from the evolution of various reporting frameworks, and rapidly address these.

With regard to the value chain, we have the following comments for the IESBA's consideration.

(A) Proposed paragraph 5407.2 A1 provides examples of three actions a firm might take when it determines that assurance procedures are needed to be performed at, or with respect to, the value chain entity:

- Perform the assurance work at the value chain entity;
- Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or
- 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.

The distinction between situation (a) and (c) is not clear, and may lead to an interpretation that the independence requirements are linked merely to the physical location of where the assurance work is performed. We recognize that the term “work performed at” is derived from the IAASB group audit standards and we recommend that the IESBA, in close cooperation with IAASB, consider developing additional application material to clarify the purpose of distinguishing when the work performed falls within a) versus c).

(B) We agree with the concept required by R5407.4, which is aligned with fundamental principles of the Code; however, since the independence provisions impact an SAP's ability to obtain and use sustainability assurance evidence on value chain information, we believe this is a matter that should be discussed with and deliberated by the IAASB prior to finalizing Part 5. Specifically, further consideration is needed to determine if work performed by another SAP has to be completely disregarded or if it has some assurance evidence value in the event the value chain SAP is unable to confirm independence under IESBA Part 5 or if the confirmation is on a different independence framework than Part 5. This will be especially important for non-PA SAPs who may have less experience in and ability to consider if and how different independence frameworks compare to Part 5.

MOORE - Moore Global Network Limited

Yes, we support the provisions in Section 5407. However, practically we are uncertain as to how the SAP will ensure the independence of the value chain SAP.

MU - Muhammad Umar - Mo Chartered Accountants

Independence requirements ought to be strict with regard to the value chain. A great deal of value chain entities are related parties and have cross-interests which will impact independence. Further, understanding and applying independence standards may be a challenge.

RSM - RSM International Limited

We support the provisions in Section 5407, Independence Considerations Relating to Assurance Work at, or with Respect to, a Value Chain Entity, of ED-IESSA addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity. However, the requirements in paragraph 5407.6 of ED-IESSA are unclear when the SAP performs work on the value chain entity's sustainability information that is provided by the client and no assurance work is provided at the value chain entity.

Notwithstanding our concern over the scope of the proposed Part 5 of ED-IESSA detailed in question #2, we have some concerns that the provisions may be drafted in a way that may be unclear to non-PAs or PAs who may not be independence experts. We recommend that the IESBA clarify and simplify the language used. In addition, as detailed in question #1(b), we encourage the IESBA to consider issuing a 'start-up guide' and/or other background information to help users in implementing these provisions.

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.

If the firm performs the assurance work at a value chain entity, R5407.3 (EM para 108) requires that the firm and the member of the sustainability team be independent of the value chain entity, the sustainability assurance client and its relevant related entities. Part of sustainability information can be within the reporting boundary of both the value chain entity and the sustainability assurance client. It suggests such overlapping information is related to at least two clients when the firm performs the assurance work at a value chain entity. Even though the firm is independent on each of the sustainability assurance client and relevant value chain entities, the firm may be exposed to greater self-interest threats and greater pressures to support clients' preferences (Church et al. 2015) and exercise reduced professional skepticism (Hurt et al. 2013) especially when the sustainability assurance client and relevant value chain entity have similar preferences of reporting.

There is also a concern with high fee dependency from the sustainability assurance client and its value chain entities as a whole. When sustainability information of a value chain entity is within the reported boundary of the sustainability assurance client, independence can be threatened when a large proportion of assurance income is associated with clients in the same value chain because it provides the firm with greater economic incentives to accept clients' (including the sustainability assurance clients' and value chain entities)

preferences in order to retain the clients (Hay 2017; Church et al. 2015). We suggest the firm assess the independence of the value chain of a sustainability assurance client as a whole when (1) they perform the assurance work at the value chain entity and (2) the sustainability information of the value chain entity is within the reporting boundary of the sustainability assurance.

We support the provisions in Section 5407 addressing the independence when a firm uses the work of a sustainability assurance practitioner at a value chain entity and when a firm does not carry out assurance work at the value chain entity. We suggest extending the R5407.4 and R5407.6 to make it clear that the firm shall comply with Section 5700 in addition to those provisions in Section 5407.

NSU - Nova Southeastern University

Question 13 opinions in support:

- I support the provisions of Section 5407 as they relate to independence considerations when performing assurance work at a value chain entity. Admittedly, value chains can be complex as they operate independently despite being affiliated with a single brand. Some of the provisions include the firm performing assurance work directly, using another practitioner's work, or auditing information provided by the client. Nonetheless, value chains must remain independent even in their financial analysis as this enhances independence, credibility, and trust in sustainability reporting throughout the value chain. The provisions ensure that sustainability assurance can be conducted on value chains effectively.
- Within Section 5407, I support the provisions that address independent considerations when assurance work is performed at, or with respect to, a value chain entity due to the materiality of information. It is important to remain independent of the sustainability assurance client in order to provide reasonable assurance to the public interest.
- I also agree with the provisions in Section 5407 in regard to the independent considerations with assurance work being performed at a value chain. I find that if possible and not too costly in time or money it should be done. As auditors we are already required to take inventory observations at a company's factory or retail stores. I envision that this would be very similar. Although the value chain entities would be more complex than the normal inventory observations, I agree with the provisions in Section 5407.
- I do support the provisions addressing the independence considerations when assurance work is performed. Independence is one of the key factors when performing an audit and allows for the auditor to practice professional skepticism and provide an appropriate opinion. This gains public trust and allows stakeholders clarity in financial decisions that will be made. Sustainability reporting will also aim to provide stakeholders with quality information which makes it imperative to always maintain independence. The proposal discussed specific information regarding the firms as well as who can perform sustainability assurance tasks. In the future, increased qualifications may arise for these individuals if there are instances that independence is sacrificed. I support the strategies discussed and would implement

further descriptions for firms to ensure independent reports are being presented to the public.

- Yes, I do support the provisions in Section 5407 of the ED. Integrity and independence is one of the principles in the AICPA Code of Conduct as well as an essential part of the foundation of auditing. Therefore, addressing the independence considerations is a vital part of sustainability reporting and assurance. The provisions set forth in Section 5407 are extremely important to ensure that the assurance work performed at, or with respect to, a value chain entity maintains and upholds the same integrity and independence standards as sustainability practitioners. Independence gives credibility to a company and is key to gaining public trust. Assurance work performed at a value chain entity can impact and reflect on all members of the value chain.

Question 13 opposed:

Section 5407 broadly addresses all the requirements of Independence when performing assurance work on a Value Chain Entity. This extract resembles the Audits Independence Standards, however, although the SEC has recently dictated that the Companies disclose on the Financial Statements notes regarding climate risks and impacts, the value chain entities were removed from the definition due to the issues in obtaining this information. This seems to be either an incongruence on the present regulations or an advance by the IESBA to retake this subject on the future.

Others

IBA - The International Bar Association

We do not wish to make specific comments on the technical elements of the IESSA's approach to value chain entities.

However, at a general level, the provisions on value chain entities at section 5400 are unclear: for example, subsection R5407.6 does not specify that firms must be independent from a value chain entity when that firm performs the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client – without carrying out assurance work at that entity. However, the Explanatory Memorandum indicates an intention for independence requirements to apply in these circumstances.

The complexities associated with requiring independence from value chain entities may be a barrier to implementation by non-PAs.

Question 13 - 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.

Investors and Other Users

DIR - Daiwa Institute of Research Ltd

No. It would be extremely complicated and difficult to trace all the independency of value chain entity.

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

Our key concern is the length and complexity of proposed Part 5. Given the complexities, and the emerging issues surrounding the value chain, we believe that the sections 5407 and 5700 on value chain should be removed from Part 5 at this time.

Given the complex nature of, and still emerging practice to assure information from, the value chain and the different parties that could be involved in the sustainability assurance engagement, including the assurance client and group, customer, other assurance practitioner, component assurance practitioner, we recommend that the IESBA first develop non-authoritative guidance to illustrate how the principles of the Code may apply. We recommend that the IESBA develop mini case studies based on real life examples of the considerations and the threats to independence in each of the scenarios.

Although our preference is for the value chain sections to be placed into non-authoritative guidance, if the IESBA determines it necessary to include these sections in Part 5, we consider it would be clearer to merge the two sections 5407 and 5700. If a practitioner wants to look up all requirements for the value chain, it is useful for all considerations to be included in the same place.

Through our outreach, we have identified different interpretations of the proposals and where we believe further clarity is necessary either if the existing value chain proposals are

retained or if they are moved to non-authoritative guidance. An example is if the assurance work on the value chain entity is performed by the sustainability assurance practitioner. There are different interpretations as to whether the:

sustainability assurance practitioner is required to be independent from related entities of the value chain entity?; or the

reason to believe test applies in these circumstances?

While commentary in the EM provides some answers, the requirements, as currently drafted, are not clear, and may create confusion.

Another area of confusion is whether other services can be provided to value chain entities. Sustainability assurance practitioners are concerned that providing non-assurance services for certain entities will exclude them from providing sustainability assurance services for many assurance clients. For example, one manufacturer's scope 1 GHG emissions might impact multiple entities Scope 3 GHG emissions.

Further time is needed to explore appropriate safeguards and considerations that would be both practical and establish appropriate guardrails applicable for the value chain, for example if "another sustainability assurance practitioner provides assurance over the information" would there be an appropriate safeguard to address threats resulting from NAS provided to a value chain entity?

Professional Accounting Organizations (PAOs)

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

Overall response: No.

Detailed comments: We do not support the provisions in section 5407 and believe the section should be removed. The proposed requirements are inconsistent with the direction the IAASB is heading with ISSA 5000, unnecessary, and the proposed section includes performance standards, which should not be included in the code.

According to the discussions held during the IAASB's March 2024 board meeting, the assurance standard may address assurance work at, or with respect to, a value chain entity in a group approach or by using the report of another practitioner similarly to how a practitioner would use a service organization's report on controls in a financial statement audit. The IAASB's discussed approach did not address the circumstances proposed by IESBA in items (a) and (b) of paragraph 5407.2 A1. Accordingly, the two boards seem to be taking inconsistent approaches and it may be unnecessary for IESBA to address these two circumstances.

Though the two boards seem to be aligned with the circumstance in item (c) of 5407.2 A1, addressing this circumstance may be confusing because it seems unnecessary. As such, we recommend that section 5407 be removed.

We further note that this section outlines how assurance work might be carried out, which is outside of IESBA's purview as discussed further in the "Performance standards should not be included in the code" section of this comment letter. As explained previously, this is expected to cause significant confusion for sustainability assurance practitioners,

especially when such requirements proposed by IESBA are not consistent and operable with IAASB standards.

CAANZ - Chartered Accountants Australia and New Zealand

Feedback we received from our members indicates that this is the most challenging aspect of the ED. We have heard concerns regarding the practicalities of obtaining statements of independence from sustainability assurance practitioners who perform assurance work at value chain entities. Managing the process of administering (both requesting and providing) statements of independence could be onerous, especially given the sheer quantum of value chain entities that could potentially be involved in any one sustainability assurance engagement, for example, a supermarket. These practical difficulties would likely be exacerbated for small and medium practices (SMPs), so SMPs could be disproportionately impacted.

Paragraph 102 of the EM refers to “material value chain entities”, and we concur that materiality must be a consideration. However, materiality does not appear to be covered in the ED. Given the intent is clear in the EM, this appears to be an inadvertent omission in the ED which we recommend the IESBA rectifies in the final pronouncement.

Another suggestion we heard to make the process more manageable was the possible inclusion of a risk-based approach. For example, entities typically tend to have less influence over the sustainability practices of downstream value chain entities than upstream value chain entities, so they may be lower risk in terms of creating threats to independence.

We recommend the IESBA remove the value chain entity proposals in light of the significant feedback received and potential issues identified. Substantially redrafted value chain entity proposals would be required and would likely necessitate re-exposure to deal with this topic. For that reason, we recommend to progress the standard without this material, and take more time and input to address this in a separate project.

CAI - Chartered Accountants of Ireland

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 the provisions contained in Section 5407 are inoperable and do not support them as they are currently presented. For example:

Regarding the option (a) requirement to be independent of the value chain entity in order to perform the assurance work at the value chain entity:

The assurance work in this instance will involve performing assurance work on the sustainability information of the value chain entity directly, rather than having to rely on the same information being provided by the sustainability assurance client. Requiring the SAP to be independent in this situation, but that same independence requirement does not apply

in regard to (c) appears to suggest the SAP should place more reliance on the sustainability assurance client than on their own sustainability assurance procedures.

There is the additional practical consideration that when the SAP is performing assurance work on sustainability information at the value chain entity, this may require them to consider sustainability information from a further tier in the value chain, e.g. a supplier or distributor for that value chain entity. For consistency, the SAP would also need to be independent of that next tier value chain entity in the event assurance work needs to also be performed there.

Furthermore, in order for this requirement to operate effectively in practice, a SAP firm will need to develop and implement a quality management system that can address the complexities of gathering all relevant information to assess independence in the sustainability assurance client (including group), related components, and its value chain entities. The latter may be unknown in advance of accepting the assurance engagement, and this may present a significant risk to engagement performance in terms of timeliness, cost effectiveness, and quality, especially in situations where the sustainability assurance client has hundreds, sometimes thousands, of value chain entities.

Regarding the option (b) requirement to ensure another SAP is independent of the value chain entity if they intend to rely on their assurance work:

This requirement assumes a value chain entity is either in scope for a sustainability assurance engagement (which is unlikely in most cases) or agrees to undertake it or allow the assurance work to be performed. In case of the latter, it implies the other SAP performing the assurance work on the value chain entity is doing so for the benefit of the sustainability assurance client, yet the SAP is required to be independent of the value chain entity, but not the sustainability assurance client.

This requirement could be more effectively addressed by reference to Section 5406, Another Practitioner Involved in a Sustainability Assurance Engagement for a Single Entity or Group. Please see our response to question 11 in that regard.

Regarding the option (c) requirement for the SAP to be independent of the sustainability assurance client if only performing assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client, it appears to be the only viable option. However, the consequence is the SAP cannot consider appropriate safeguards that would enable them to perform objective assurance procedures within the value chain entity, a greater extent and more reliable form of assurance testing, thus resulting in potentially lower quality sustainability assurance engagement performance.

Ensuring the SAP is independent of the sustainability assurance client is key, and we fully support this. With regard to value chain entities, we recommend the IESBA reconsiders the proposals contained in Section 5407, specifically:

Paragraph 104 of the Explanatory Memorandum, which highlights that “value chain entities are not part of the client’s organizational boundary and are not under its control”. Therefore, we challenge whether the level of independence required with respect to any sustainability assurance client’s value chain entity, not under the client’s control, needs to be the same level of independence required from the sustainability assurance client itself. One perspective is to regard sustainability information from the value chain entity in a similar

manner to considering third party information from an audit client's supplier. A SAP should consider the reliability of this information similar to the requirement to consider the relevance and reliability of information in an audit engagement.

The proposed new Section 5700 includes the requirement for the sustainability assurance team to consider any interest, relationship or circumstances between it and the value chain entity and apply the threats and safeguards approach per the Code's Conceptual Framework. Extending this requirement to the SAP and the SAP firm would appear to be a practical and appropriate measure to assess reliability of any sustainability information from, or sustainability assurance work performed within, the value chain entity. See our response to question 14(b) in regard to Section 5700.

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

No, we do not support the provisions in section 5407 addressing the independence considerations when assurance is performed at or with respect to a value chain entity.

The reasons why we do not support the ED on this issue of independence from the value chain are explained below:

The concept of the value chain is relatively new, and it requires careful consideration regarding independence. Value chain entities are not part of the group and do not meet the definition of related entities. Very often, the information needed from value chain entities will only deal with scope 3 emissions. They will generally be based on estimates and will have been gathered by the client, based on information provided by the value chain entities, or based on estimations which are public.

The exposure draft (§5700) acknowledges that value chain entities (material) are not part of the sustainability assurance client's organizational boundary and are not under the control of the client. However, when analyzing the characteristics of the relationships between the audit client and the value chain entity, we should also recognize that the value chain entity and the audit client may or may not have contractual relationships (for instance, a supplier of a supplier). Additionally, the practitioner may or may not engage in contractual arrangements with the value chain entity to perform assurance procedures. We believe that assessing these contractual relationships is crucial and more relevant for independence considerations rather than how audit evidence is being collected (at the value chain entity or not).

When there is no contractual engagement between the assurance practitioner and the value chain entity within the context of the assurance engagement, it becomes challenging to justify the existence of threats to independence. This situation becomes even more apparent when dealing with rank 2 suppliers - those who supply goods or services to the audit client's supplier. In the absence of a contractual relationship with the value chain entity, the practitioner has no obligations toward that entity, and vice versa.

In the context of financial audits, there are already instances where auditors perform stock counts or review procedures at an audit client's provider (such as a logistical provider or an IT service provider). Obviously, the auditing standards do not require auditors to be independent from such providers. The introduction of "performing work at the value chain entity" as a new consideration in the exposure draft also raises questions about its

interpretation. For instance, does performing work remotely qualify as “at the value chain entity,” or does seeking clarification from a representative of the value chain entity constitute performing assurance work in that context?

Consequently, whether the practitioner is engaged or not by the value chain entity should serve as the “entry point” for analyzing the independence threats of the assurance practitioner and a value chain entity of the assurance client, and not whether audit evidence is collected physically “at the value chain entity.”

If the assurance practitioner is engaged by the value chain entity to perform assurance work, we agreed that independence consideration should be assessed with respect to that value chain entity rather than solely focusing on the audit client. This aligns with the requirements of section 5407, which we concur with, emphasizing that the triggering event should not be based solely on the fact that the sustainability assurance practitioner performs separate assurance work at the value chain entity. Instead, it should be triggered when the practitioner is engaged (either directly or jointly with the assurance client) by the value chain entity.

We thus suggest, at a minimum, the following mark up of section 5407:

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) Be engaged by the value chain entity to 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) Collect evidence on the sustainability information of the value chain entity with no contractual engagement with that entity for the purpose of the assurance engagement.

(...)

R5407.3 If the firm is engaged by the value chain entity to perform 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 that are applicable to a firm and a sustainability assurance team member, as applicable, with respect to a sustainability assurance client.

(...)

Independence considerations when a firm performs assurance work on sustainability information of a value chain entity provided by the sustainability assurance client with no contractual engagement with that entity.

R5407.6 If the firm collects evidence on the sustainability information of the value chain entity provided by the sustainability assurance client with no contractual engagements with that value chain entity, the firm and members of the sustainability assurance team shall be

independent of the sustainability assurance client in accordance with the independence requirements of this Part.

In the case of paragraph 5407.2 A1 c) we consider that the work done on the information gathered from the value chain is closer to the work conducted in an audit for collecting audit evidence and checking the reliability of these evidence. As such, the expression “perform assurance work” is misleading and “collecting evidence” from the value chain is more appropriate. The confusion comes from that notion of “performing assurance work” which triggers in every body’s mind the need to be independent.

Therefore, we consider that requiring full independence from the firm and the assurance team on value chain entities is neither pertinent nor practicable. We consider that the issue with respect to the information from the value chain should be, in applying the conceptual framework of the code that requires identification, evaluation and addressing of threats, to avoid conflict of interests or avoid having self-review threat, rather than to require the “full monty” of independence.

The following examples illustrate our argument:

- We agree that if the firm has prepared the information of the value chain and that this information is then included in the sustainability report of the sustainability assurance client, there is a self-review threat.
- We also agree that if the spouse of the partner in charge of the sustainability assurance engagement, works for the value chain entity on the information needed by the sustainability assurance client, there can be a conflict of interests.
- But we do not agree that there can be any problem if some staff from the firm, in any remote country of the world, owns a share from the value chain entity.

Therefore, we consider that requiring full independence from the firm and the team vis-à-vis the value chain entity is disproportionate and unpracticable.

As mentioned above, sustainability reporting is at an early stage of implementation in many countries. And so is sustainability assurance. Entities are on a learning curve and so are the assurance practitioners.

In France we already have a long experience of sustainability assurance, acquired through different laws requiring both sustainability reporting from entities and sustainability assurance from auditors, and we can confirm that assurance drives quality.

At this stage, we consider that it is in the public interest to increase the quality of sustainability reporting. If nobody is able to verify the information from the value chain because the firm and the team need not only to be fully independent from the assurance client but also from the value chain, there is a risk that the value chain information remains unverified or entirely based on estimates and public information.

For all these reasons, we consider that the requirements around the independence vis-à-vis the value chain should, in applying the conceptual framework, be limited to avoiding conflicts of interests and self-review threats.

GAA - Global Accounting Alliance

There are significant practical challenges likely to be associated with assurance engagements involving value chains, in particular of a group sustainability assurance practitioner (SAP) being able to ensure the independence of the engagement team at the relevant level within the value chain. As such, the operability of section 5407 should be seriously reconsidered, and as part of this process, articulated therein a practical threats and safeguards approach to achieve the desired outcome.

HKICPA - Hong Kong Institute of Certified Public Accountants

We are of the view that requiring the practitioner who performs assurance work at the value chain entity of the sustainability client to be independent of the value chain entity is excessive and disproportionate in the context of a sustainability assurance engagement. This is particularly the case when (i) value chain entity is not the reporting entity of the sustainability information, (ii) the number of value chain entities involved may be significant, and (iii) the extent of work performed at each value chain entity may be limited for the time being given that in many cases limited assurance is provided on a limited scope of sustainability information. While we acknowledge that this is a matter for consideration in terms of the scope of assurance engagement and that it falls under the purview of the IAASB's proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, we would appreciate it if the IAASB and the IESBA can work together to address this area considering current practice and the evolving scope of sustainability assurance.

In addition, there seems to be an inconsistency between the explanation of the proposed independence requirement in paragraph 108 of the explanatory memorandum and the draft wording in paragraph R5407.3. Paragraph 108 states clearly that the firm and members of the sustainability assurance team will need to be independent from not only the value chain entity, but also its relevant related entities which is missing in paragraph R5407.3. It would be helpful to clarify in paragraph R5407.3 to ensure consistent application of the independence requirement. Furthermore, we would like to emphasize that extending the requirement to the related entities of the value chain entity would be challenging in practice based on the aforementioned reasons.

Furthermore, we note that there are different approaches which could be used by practitioners when determining assurance procedures at the value chain entity (i.e. paragraph 5407.2 A1) which are subject to different independence requirements (i.e. paragraphs R5407.3 and R5407.4). However, the rationale behind the differences in independence requirements has not been explained in the ED-IESSA or the explanatory memorandum. We recommend that the IESBA explain the rationale in the Basis for Conclusion for better understanding by practitioners.

Lastly, we suggest that the IESBA clarify paragraph 5407.2 A1(a) when it refers to “at the value chain entity”. With the use of technology and availability of remote access, practitioner is able to obtain information directly from the value chain without being physically “at the value chain”. In addition, it will also be useful to clarify whether obtaining direct confirmation from the value chain entity is considered as performing work “at the value chain entity”. This clarification will enhance practitioners’ understanding of how to approach situations involving a value chain entity, enabling them to apply the appropriate independence

considerations as set out in paragraphs R5407.3 to R5407.6 to ensure consistent implementation of the requirements.

ICAEW - Institute of Chartered Accountants in England and Wales

It appears that the approach taken by IESBA is to view value chain entities as providers of information and to place a duty on the Sustainability Assurance Practitioner to make inquiries relating to independence where the information provided by a value-chain entity is material to the engagement. We are concerned that obtaining assurances about independence to the required standard, from a significant number of multiple entities (as per proposed new Section 5700.3.A1) is likely to prove challenging in practice.

We consider that it is important not to underestimate the significant practical difficulties in obtaining information to demonstrate that a firm (and all relevant employees) are independent from every entity in the value chain. Some large utility providers and multi-nationals may encompass a very large number of entities within their value chain ecosystem. We note that this will require sophisticated processes, procedures, and quality management systems, all of which may have the unintended consequence of acting as an impediment to the entry of smaller firms into this market. Therefore, running counter to the public interest in ensuring a level playing field in the market for sustainability assurance and adequate choice for consumers of sustainability related information.

It is important not to overcomplicate what is a laudable objective, where a value chain entity is providing information that is material to the overall assessment of sustainability information, that information should be provided objectively and competently. Equally, where requirements may form the basis for regulatory action, it is important that the meaning and interpretation of such standards is clear and consistent.

We are concerned that a potential unintended consequence of these provisions may be to create, as regards Sustainability Assurance Engagements, a higher bar in practice than applies to statutory audit in the UK.

We are also concerned at the potential for creating an expectations gap, particularly in circumstances where firms with audit practices are undertaking Sustainability Assurance Engagements. In such circumstances, there might be a risk that those relying on the published sustainability information might think that the firm is providing assurance in respect of the financial stability of the entities in the value chain.

(...)

We have concerns that the provisions in proposed new Section 5407 may be confusing for non-Professional Accountants who may not share the same base understanding of key concepts such as independence and objectivity as Professional Accountants with their experience of dealing with these concepts in the audit context.

Other than the statement of independence referenced in R5407.4.A1, it is not immediately clear what further matters are to be considered or what actions should be undertaken by the Sustainability Assurance Practitioner. A more explicit link to the provisions of proposed new Section 5700.4 would be helpful here.

More generally, we consider that further guidance/application material on this point would be helpful to enable both Professional Accountants and non-Professional Accountants to apply the provisions in a consistent manner.

We do not consider the three options set out in proposed new Section 5407.2.A1 to be particularly helpful: It is not clear in what circumstances practitioners would choose to engage with Option (a), and we do not consider this option to be practical. Option (b) does not specifically address circumstances where the Sustainability Assurance Practitioner is deemed not to be independent. Option (c) 3 does not sufficiently make clear that it is necessary for the firm to be both independent of the client as well as the value chain entity.

In this regard, we consider it important to note that where there is no legal mandatory requirement, Sustainability Assurance Practitioners who are not regulated by a professional body and Code of Conduct may not consider themselves under any obligation to respond to requests for information about their independence from third parties.

Generally, we consider the wording of proposed new Section 5407.6 to be confusing. We note that the provisions refer to material entities in the value chain. However, we consider that the real issue is the requirement in international sustainability reporting standards (ESRS, IFRS SDS) to report on material impacts, risks and opportunities, not necessarily information about an individual value chain entity.

We do not envisage situations where assurance work will be performed at a value chain entity of a client for the purposes of that client's assurance engagement. Rather, we believe that the focus should be on "evaluating evidence" in relation to value chain entities, which would lessen the importance and need for practitioners to focus on stringent independence considerations and enabling them to focus more on the reliability of the evidence provided.

ICPAU - Institute of Certified Public Accountants of Uganda

We do not support the provisions in Section 5407 because value chain entities deal with so many companies and compliance with similar requests from all their sustainability assurance providers will be impractical.

IDW - Institute der Wirtschaftsprüfer (Germany)

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).

(...)

As outlined in our cover letter, our members anticipate that most, if not all, potential SAPs will be extremely challenged to comply with R5407.3: "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 that are applicable to a firm and a sustainability assurance team member, as applicable, with

respect to a sustainability assurance client.” Our concern is that this provision will – in practice – lead SAPs not to seek to perform work “at the value chain entity” (whatever “at” means will need further clarification), even though it may impact the quality of the assurance engagement.

Furthermore, the proposed text is confusing, especially considering sections 5407 and 5700 together, which appear to overlap, and the relationship to text that mentions of value chains elsewhere (e.g., 5300.6 A1, third bullet point and 5300.7 A4a). More fundamentally, the threat to independence will depend on the nature of the value-chain entity and the relative significance of information stemming therefrom.

IFAC - International Federation of Accountants

We do not support the provisions in Section 5407 and recommend these are removed.

Three options are provided for gaining assurance in relation to value chain entities within the application guidance. Performing work at the value chain entity in line with 5407.2 A1 (a) will be impractical in many cases, especially if the value chain entity transacts with a large number of other companies and may receive similar requests from their assurance providers. It would not be possible or likely for access to be allowed to complete work in such instances.

Gaining assurance from another practitioner in line with 5407.2 A1 (b) may also be challenging as those practitioners may not understand independence requirements nor be able to confirm independence in some cases. We also note that R5407.4 requires that where assurance is sought from another practitioner, that practitioner performing work at a value chain entity needs to be independent of that value chain entity, however there is no requirement for that practitioner to be independent of the sustainability assurance client for whom the work will be relied upon.

The third option in 5407.2 A1 (c) will often be required, which entails performing work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out work at that entity. Where this occurs, this section creates no requirement for members of the sustainability assurance team to be independent of the value chain entity. R5407.6 identifies only independence from the sustainability assurance client is necessary where the approach outlined in 5407.2 A1 (c) applies. However, section 5700 clarifies that threats arising from the value chain entity also need to be considered, implying independence from the value chain entity is also required regardless of whether work is actually performed at that entity. Explicit clarity in R5407.6 that this is required would be useful as practitioners unfamiliar with the Code may otherwise miss this. Placing related requirements or guidance in different sections makes it challenging to gain a full understanding.

More generally in this area, an issue could arise around compliance with requirements considering the level of advisory work currently being completed at entities. If such entities themselves, or entities that are part of the value chain, subsequently request assurance services, this could create problems.

IWP - Institut Österreichischer Wirtschaftsprüferinnen

No. First of all, it does not appear to be clear what “at the value chain entity” means – the physical location of the sustainability assurance team performing work can’t possibly

determine the level of independence requirements. We also note that the term “value chain entity” seems to envisage legal entities, whereas the value chain may also comprise self-employed persons and any type of informal organisations.

Also, we consider it practically impossible to monitor compliance with R5407.3.

PAFA - The Pan-African Federation of Accountants

We do not support the inclusion of all three provisions outlined in Section 5407 due to several challenges identified. Firstly, conducting assurance work directly at the value chain entity, as suggested in option (a), may prove impractical in many instances, especially when the entity engages with numerous other companies. Secondly, relying on another practitioner for assurance, as proposed in option (b), could be hindered by other practitioners' potential lack of understanding regarding independence requirements. Additionally, while the requirement for independence of practitioners conducting work at value chain entities is addressed in the provision, there is no corresponding requirement for independence from the sustainability assurance client relying on the work.

The third option, involving work on sustainability information provided by the sustainability assurance client without direct engagement with the value chain entity, may be the most feasible. However, the absence of a requirement for members of the sustainability assurance team to be independent of the value chain entity raises concerns. Although independence from the sustainability assurance client is specified, there is no explicit requirement for independence from the value chain entity itself, despite indications elsewhere suggesting its consideration.

Furthermore, the scattering of related requirements and guidance across different sections complicates comprehension and application. Additionally, compliance with these requirements may be challenged by the prevalence of advisory work within entities, especially if these entities or others within the value chain subsequently seek assurance services. Overall, these challenges lead us to oppose the inclusion of all three provisions in Section 5407.

SAICA - South African Institute of Chartered Accountants

While SAICA believes independence provisions are important, we would support a lighter approach in this regard. We are concerned with the increased exposure and administrative load that the proposed independence considerations about the value chain may create.

In our view we believe that by extending the independence requirements of the Code to value chain entities related to the sustainability assurance client in the IESSA, is inconsistent with the IESBA's main objective of making the IESSA equivalent to the ethics and independence standards for audit engagements. Given the potentially large and dynamic populations of value chain entities for each sustainability assurance client, maintaining independence from these entities will be both difficult and costly.

We question the need for value chain organisations to be independent. In contrast to an audit of financial statements, the auditor is not needed to be independent of all customers, suppliers, or service providers in the operational value chain. The additional danger to independence indicated by the IESBA is questionable, given that the practitioner is already independent of the sustainability assurance client.

The proposed rules for assessing the independence of the value chain company and all its linked entities will be difficult to understand and implement, and costly with possible unintended consequences of creating barriers for entry for those that would be willing and able to take on these types of engagements in the market.

Accounting Firms and Sole Practitioners

Assirevi - Association of Italian Audit Firms

Assirevi does not support the indications of Section 5407 for the reasons described below.

On one hand, the value chain may be very articulated and each entity may be value chain entity of other entities. On the other hand, with respect to entities belonging to the value chain, evaluation of the independence requirements is closely tied to the assurance work that the practitioner has to perform on the information related to the entities in the value chain that is material to the sustainability information. As mentioned above, the ISSA 5000 currently lacks suitable requirements and guidance to allow practitioners to plan and perform engagements for these entities properly and effectively. Definition of independence rules applicable to practitioners requested to perform assurance activities on entities in the value chain depends on their reporting boundaries.

If it is not yet clear which assurance activities are to be performed and with respect to which scope, how can their impact on independence be assessed?

Furthermore, it should be noted that a value chain entity may not be part of the assurance client's organizational boundary and thus not be under its control. For instance, the value chain entity is not subject to the oversight of those charged with governance of the client. In this context, all independence considerations about the value chain entity are left to the professional accountant; whereas, usually, the assessment of independence does not only involve the professional accountant, but also the client (e.g., the client's audit committee).

In addition, Assirevi believes that the proposed approach regarding independence in relation to the sustainability assurance work to be performed at the level of a value chain entity (ref. 5407.2 A1 letters a) and b) addressing the cases where the SAP performs the sustainability assurance work at the value chain entity, and when it relies on the work of another sustainability assurance practitioner who performs the assurance work at the level of the value chain entity), involves the risk of creating situations in practice that lead to the impossibility for most firms to be able to perform the assurance work. This is due to the potential presence of independence issues on multiple value chain entities and consequent limitations to the work. The proposed approach therefore appears so restrictive as to limit in practice the possibility of performing the work or in any case to create significant limitations. In fact, it is not considered either practicable or reasonable to expect that the sustainability assurance practitioner should be independent with respect to the value chain and moreover with respect to companies that are outside the concept of "related entities" in relation to the assurance sustainability client.

It is also noted that if the SAP uses the work of another sustainability assurance practitioner who performs assurance on the value chain, the same does not have direction, supervision and review, as detailed in the response to question 14 below.

BDO - BDO International Limited

BDO disagrees, with the following additional comments:

As discussed in paragraphs 102-114 of the Explanatory Memorandum, the IESBA has chosen to extend the independence requirements of the IESBA Code to material Value Chain Entities, unrelated to the sustainability assurance client, in the IESSA.

Firstly, the fact that this only applies to material Value Chain Entities does not come across at all in Section 5407.

Secondly, BDO considers the extension of the independence requirements to be a fatal flaw and believe that this is inconsistent with the IESBA's main objective of making the IESSA equivalent to the ethics and independence standards for audit engagements. BDO is concerned that given the potentially large and dynamic populations of value chain entities for each sustainability assurance client, and the presumed lack of an ownership or management relationship between the client and the value chain entity, the development and operationalisation of systems and procedures for maintaining independence from these entities will be both difficult and costly, representing a high barrier to entry for prospective sustainability assurance practitioners (accountants and non-accountants). This is not in the public interest.

Furthermore, the value chain entities are under no obligation to provide information to the sustainability assurance practitioner for independence evaluation purposes, let alone obtaining further information from subsequent tiers, which has not been defined, within the value chain.

This situation could also lead to a lack of availability in the market for clients who need advisory support with respect to their sustainability reporting needs. Large multinational audit and advisory networks that may well be best placed to provide large scale complex assurance services, may find themselves conflicted from providing assurance services further up in the value chain, where they provide advisory services to entities lower down in the value chain. In particular, for certain entities with a large number of value chain entities, such as large utility companies, the risk of future conflicts may be so high that it distorts the competitive marketplace for advisors.

The marketplace could be distorted even further where local legislation requires the same firm to perform both the financial statement audit and the sustainability assurance engagement, for example the draft Treasury Laws Amendment Bill 2023 which is proposed to come into effect in Australia. In such a situation, a firm will be required to resign as financial statement auditor, if the firm is not in a position to perform the sustainability assurance engagement for clients. And the ability of the firm to perform the sustainability assurance engagement will be impacted by the implications of these independence requirements that are applicable to value chain entities.

With regards to section 5407, BDO believes that there is insufficient clarity in the current draft. Specifically, proposed section R5407.3 requires the practitioner's firm and members of the sustainability assurance team to be independent of a value chain entity if the firm performs assurance work 'at' the value chain entity. It is unclear whether this 'at' means when:

- the value chain entity is not a sustainability assurance client, but assurance work is performed on subject matter information originated by the value chain entity for which the sustainability assurance client is responsible, under the applicable reporting standard, at the value chain entity's physical premises, or
- the value chain entity is not a sustainability assurance client, but the scope of the engagement includes information originated by the value chain entity and assurance work on that information is performed digitally by the practitioner, without necessarily visiting the value chain entity's premises.

The terminology supports the first interpretation, but the second interpretation seems more plausible.

Additionally, BDO thinks there is a lack of clarity in R5700.4 as to how or when a relationship with a value chain entity is relevant to a firm's independence from a sustainability assurance client. Application material has not been provided with factors to consider, possible safeguards etc.

Recommendation:

BDO believes a more appropriate approach would be to require the sustainability assurance practitioner to maintain independence from the party (or parties) responsible for the sustainability information under the applicable reporting standard, but not from other parties, equivalent to extant paragraph 900.11 A2 of the IESBA Code. When the responsible party uses information from a value chain entity in its sustainability reporting, the value chain entity's relationship to the sustainability assurance practitioner is analogous to the relationship of management's expert, as defined in ISA 500 paragraph 5(d), with the auditor of the client's financial statements. This relationship does not require the auditor to be independent from management's expert.

DTTL - Deloitte Touch Tohmatsu Limited

Deloitte Global does not support extending independence requirements to an assurance client's value chain entities. Requiring independence beyond the organizational boundary of the sustainability assurance client to an entity's value chain entities would, in our view, render the IESSA inoperable in the context of a large sustainability assurance engagement, particularly for large national and multinational groups, some of which are likely to have hundreds or thousands of value chain entities. This would give rise to substantial implementation challenges, for example:

A single value chain entity may be involved in many entities' value chains (e.g., an electricity provider). Requiring each entity's sustainability assurance practitioner to consider their independence with respect to that value chain entity may severely restrict the value chain entity's choice of provider for non-assurance services, especially when it relates to the generation of sustainability information. High quality information is critical for sustainability reporting and assurance upon which the public can confidently rely. Having overly burdensome independence requirements would undermine the sustainability reporting and assurance ecosystem.

The lack of a finalized assurance standard that sets clear requirements on the assurance procedures expected with respect to value chain entities impedes the ability to apply and

consistently implement an operable independence framework for sustainability assurance on value chain entities. In addition, the three scenarios outlined in paragraph 5407.2 A1 have no grounding in current assurance standards and therefore have no basis in how sustainability information would be collected, reported or assured. As noted above, it will be important for stakeholders to re-assess proposed Section 5407 once ISSA 5000 is finalized to be able to provide feedback on whether the IESSA is operable, at a minimum, with the corresponding assurance standard.

Sustainability assurance clients do not control or influence value chain entities and there is no legal right to demand information from a third party outside of the client's organizational structure, such as information that may be required to assess independence, when performing assurance at the sustainability assurance client. Equally, there is no ability to challenge whether relevant information is missing from a value chain entity.

Even if sustainability information can be obtained or is shared freely, the sheer number of potential value chain entities in a multinational organization (e.g., one multinational has advised they have over 700,000 entities in their value chain) would make the proposed IESSA unworkable if the entity was to obtain assurance over even a fraction of the value chain entity's sustainability information included in the sustainability report. Such a far-reaching standard will present significant challenges in identifying, monitoring and complying with the independence requirements with respect to value chain entities.

For the reasons stated in our response to Question 11, we also do not support the requirements to obtain confirmations of compliance with the independence requirements from other practitioners performing assurance work at value chain entities.

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

We do not support the provisions addressing independence considerations for assurance work at a value chain entity (VCE). VCEs are generally not related to the sustainability assurance client in the traditional way by ownership or financial interest. Meanwhile, all

entities are connected in some fashion with a multitude of other entities, especially in a global economy or for a multi-national corporation. In addition, the web of connections among these entities is constantly changing. So while the organizational boundary and the reporting boundary are not aligned in sustainability assurance, we do not believe the IESBA has made a successful case for the need to evaluate or require independence from entities that go beyond the organizational boundary. In fact, in some SAEs it can be argued that there is not a need to evaluate and require independence from all entities inside the organizational boundary because certain entities may not have an impact on the sustainability information.

The operational strain imposed to achieve compliance with Section 5407 is anticipated to be monitoring intensive for most firms and beyond the reach of smaller practices that offer sustainability assurance services, hampering their ability to implement the proposed Part 5. By potentially eliminating smaller, yet equally qualified practitioners from the market, diversity and healthy competition are compromised. There is also a cost to the sustainability assurance client to seek an alternative sustainability assurance provider in the event that their current provider is unable to assert their independence. Indeed, given a sustainability assurance client may change a supplier or vendor daily, compliance with this section by an SAP of any size may not be possible.

We also believe that scoping in VCEs seems to be going beyond the independence requirements in the case of a financial statement audit or review. We believe this proposal may lead to potential unintended consequences, especially when the requirements related to the reporting and assurance under the Corporate Value Chain (Scope 3) Standard are unclear. There is a risk that the IESBA, by imposing onerous independence requirements related to VCEs, will create unforeseeable yet adverse outcomes for the sustainability assurance industry.

We believe that should the proposed Section 5407 go forward, in addition to the unintended consequences discussed above, it will likely lead to a scenario that limits choice in the market by clients for SAPs, as there will not be sufficient competent and independent practitioners to perform SAEs, or a scenario where there is inability for some SAPs to obtain sufficient appropriate evidence, leading to scope limitations. Neither of these scenarios would be in the public interest.

Comments on specific paragraphs if proposed Section 5407 is maintained include:

R5407.4 and R5407.5 - When the work has already been performed by another practitioner who asserts independence under provisions other than those in Part 5, a transition period should be granted to allow a statement of independence under Part 4B of the Code to satisfy the requirement in R5407.5. See our response to question 24 regarding effective date.

R5407.6 - We recommend deleting this requirement paragraph as it is duplicative of the overarching requirement of the International Independence Standards in Part 5 for the SAP to be independent of the sustainability assurance client.

MAZARS - Mazars Group

We have a number of significant concerns around the proposals relating to independence when work is “performed at, or with respect to”, value chain entities. A key consideration

when assessing the proposals is whether they are implementable in practice, and we do not believe that the proposals pass that test in their current form. We agree that value chain entities are not part of the client's organisational boundary and that the provisions in part 5 relating to group clients are not applicable.

The explanatory memorandum sets out that the value chain is predicated on reporting relating to material entities within the value chain. However, the international sustainability reporting standards currently published (ESRS, IFRS SDS) require information relating to the entity's impacts, risks and opportunities arising in the value chain, rather than information on value chain entities per se.

5407.2.A1 sets out three options when the assurance practitioner concludes that assurance work is needed at a value chain entity. We do not envisage situations where assurance work will be performed at a value chain entity of a client for the purposes of that client's assurance engagement. Rather, we believe that the focus should be on "evaluating evidence" in relation to value chain entities, which would lessen the importance and need for practitioners to focus on stringent independence considerations and enabling them to focus more on the reliability of the evidence provided. Our comments on the three options proposed are:

Perform the assurance work at the value chain entity – it is not clear on what basis the practitioner would perform this work, unless they already happened to be the assurance provider to the value chain entity. Otherwise we do not believe this would be a practical option.

Use the work a sustainability assurance practitioner who separately performs the assurance work at the value chain entity – although this situation may arise and would operate in a similar manner to component arrangements in a group audit engagement, given the focus of the client's sustainability reporting is on impacts, risks and opportunities in the value chain, generic assurance reports over the value chain entity may not be sufficient for the needs of the assurance practitioner of the client.

Perform the assurance work on the sustainability information of the value chain entity provided by the client without carrying out assurance work at the entity – this is where we believe the focus should be on "evaluating evidence" relevant to the value chain entity as opposed to performing assurance work on the information provided by the client. It may be possible to satisfy yourself that the information relevant to the entities impacts, risks and opportunities is sufficient and appropriate without performing assurance work on that information.

If these options are retained in the Code, clear, realistic examples of when each option would be applicable, and the impact on independence considerations, would be extremely helpful.

Our comments on the independence considerations relating to options above are:

Notwithstanding our comments above regarding the practicality of this option, if the firm provides assurance to the value chain entity, we agree that the firm and members of the sustainability assurance team should be independent of that entity. However, we have serious concerns about the implications for network firms in large, complex group audits

especially given the need to be independent from the value chain entity and its relevant related entities (see our comments in question 14).

Where a firm uses the work of a sustainability assurance practitioner who performs work at the value entity, we agree with the proposal that the firm should be satisfied that the other assurance practitioner is independent of the value chain entity. We also agree with the pragmatic suggestion that this requirement may be met through a statement of independence in the other practitioner's assurance report or a confirmation from the other practitioner.

We agree that the requirement should be only that the firm and members of the sustainability assurance team should be independent of assurance client where this option is adopted.

PKF - PKF Global

In our view, there is a significant risk that the provisions in Section 5407 will not be applied consistently by sustainability assurance practitioners

For any given sustainability assurance engagement, there may be a very high number of value chain entities that are relevant to the reporting entity's sustainability information and which are in scope of the IESSA. Significant investment might be required, by firms or networks, to maintain sufficient, appropriate information to support ongoing compliance with the provisions in Section 5407. In practice, we believe the provisions will be difficult for a firm to administer and, in some circumstances, impractical for a firm or network to comply with, or to design and implement suitable safeguards against.

In our view, it is appropriate for the IESSA to address threats to independence created by relevant value chain entities. We encourage the IESBA to reconsider how to better address this matter, in a practical manner which appropriately recognizes the challenges that sustainability assurance practitioners might experience, when applying independence provisions across high-volume populations of value chain entities.

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

As referenced in our answer to Q10, we agree with IESBA that there needs to be different independence considerations for value chain entities, and we agree that it is neither

practicable nor reasonable to expect practitioners to be independent of all entities in the value chain that are not related entities.

Entities at which assurance work is performed

We are concerned about the proposal to leverage, from Part 4A, the concept of “component at which audit work is performed” and include a similar concept in Part 5: “performs assurance work at a value chain entity” and what the intended meaning of this phrase is. This concept caused significant confusion when Section 405 of the Code became effective and required the IESBA to issue a clarifying FAQ.

Leveraging this concept would inevitably, in our view, require the issuance of further clarifying FAQs if the proposals as currently drafted were adopted without change. Instead, in order to address the risk of inconsistent understanding and application of the Code by practitioners, we strongly urge the IESBA to use alternative language that more clearly and explicitly describes the intent and scope of the requirement.

This may, for example, include a definition of ‘assurance work’. The IESBA and the IAASB should collaborate to provide clarity on such a definition (or description). Our interpretation of ‘assurance work at the value chain entity’ when reading 5407.2 A1 (a) and (c) is:

When the group sustainability assurance practitioner is able to obtain the evidence they require from group management, this would not be considered performing assurance work at a value chain entity.

When the group sustainability assurance practitioner is not able to obtain the evidence they require from group management or by using the work of another practitioner, and determines that it is necessary to obtain information from the value chain entity or its management that was not used by the group management in their processes or controls to prepare the sustainability information, this would be considered performing assurance work at a value chain entity.

A “sustainability assurance practitioner”

With respect to the supporting provisions outlined for 5407.2.A1 bullet (b), we agree in principle that if the firm intends to use the work of a sustainability assurance practitioner who performs assurance work at a value chain entity, the firm shall be satisfied that the value chain sustainability assurance practitioner is independent of the value chain entity. However, there is a lack of clarity about how a “sustainability assurance practitioner who separately performs the assurance work at the value chain entity” is to be viewed. For example, it is assumed in the majority of cases where work has to be performed in respect of the sustainability information of a value chain entity, the practitioner will be unable to direct, supervise and review the assurance work of that other practitioner. Consequently, they are “another practitioner”. See our response to Question 11 regarding the need to make this explicitly clear to avoid confusion with the scope and applicability of section 5406 (if that Section is retained).

While likely to be less common, this section is silent on the implications for when the sustainability assurance provider is able to direct, supervise and review the work of the sustainability assurance practitioner of the value chain entity. In such circumstances, we believe that the other practitioner would be deemed to be included in the ‘engagement

team' definition and therefore subject to section 5405. If the Board agrees, it should be clear that the requirements in sections 5406 and 5407 do not apply.

If, however, the intent is that, even when direction, supervision and review is possible, Section 5405 should not apply with respect to a value chain entity (i.e., that Section 5407 applies instead), we believe this needs to be clarified, including explaining how this can be reconciled with the definition of the 'engagement team' which only excludes individuals from 'another practitioner'.

We also foresee a number of practical challenges around the timely and consistent identification of value chain entities and how the firm would decide on the applicable approach under 5407.2 A1 to obtaining assurance and, where applicable, manage compliance with the requirement in R5407.3 given that:

- Assurance engagement scoping decisions can be iterative and may need to be revised based on new information that arises during the engagement
- Management's decisions as to what is material for reporting purposes may change during the period or the practitioner's consideration of materiality may need to be revised; and
- There could be a high number of such entities, given that the scope of the value chain may be extensive, can be multi-layered and these will change depending on the metric being reported on.

In this regard, we also observe that there are no proposed provisions dealing with client-driven changes in value chain entities or in materiality considerations during the period (comparable to provisions in Section 405). There is a need for the standard to allow for changes that may occur during the engagement period such that the sustainability assurance provider is not automatically deemed not to be independent.

With respect to R5407.4, a sustainability assurance practitioner at a value chain entity may not apply the Code and therefore the firm cannot be satisfied that "practitioner is independent of the value chain entity in accordance with the independence requirements of this Part". It is unclear from the proposals whether and, if so, how, the IESBA intends to address the concept addressed in ISSA 5000 of practitioners applying "other ethical requirements, including independence, that are at least as demanding as the IESBA Code".

With respect to R5407.5, please see our response to Question 11 on the challenges associated with obtaining a confirmation of independence from another practitioner.

We observe that 5407.6 seems superfluous as independence is required by other sections. If 5407.6 remains in this Part, we propose that it is clarified such that it does not inadvertently create an independence requirement with respect to the value chain.

We agree in principle to the supporting provisions outlined for 5407.2A1 bullet (c), however it is unnecessary as independence is required by other sections.

Question 13 - No Specific Comments

Regulators and Oversight Authorities, incl. Monitoring Group members

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 Dirringer

Public Sector Organizations

GAO - US Government Accountability Office

Files\\7. Professional Accounting Organizations (PAOs)

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

FACPCE - Federación Argentina de Consejos Profesionales de Ciencias Económicas

INCP - National Institute of Public Accountants of Colombia

NBA - Royal Netherlands Institute of Chartered Accountants

NYSSCPA - New York State Society of CPAs

PICPA - Pennsylvania Institute of Certified Public Accountants

Files\\8. Other Assurance Providers and Accreditation Bodies (non-PAs)

AA - AccountAbility

Files\\9. Accounting Firms and Sole Practitioners

BKTI - Baker Tilly International

Files\\10. Academia and Research Institutes

NNN - Nada Naufal Director at the American University of Beirut

NRS - Professor Nicole Ratzinger-Sakel

Files\\11. Others

IIA - The Institute of Internal Auditors