

**IESBA Sustainability****Question 12 - Agree****Regulators and Oversight Authorities, incl. Monitoring Group members****ACRA - Accounting and Corporate Regulatory Authority (Singapore)**

We support the proposal to align the definition of “value chain” with that in the reporting frameworks. This approach is in line with the IESBA’s objective to establish framework-neutral ethics and independence requirements.

**BAOA - Botswana Accountancy Oversight Authority**

We support the definition; it clearly explains the distinction between the value chain for reporting and sustainability assurance engagements.

**IRBA - Independent Regulatory Board for Auditors**

Yes (with no further comments)

**UKFRC - United Kingdom Financial Reporting Council**

Yes.

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

Yes.

**UNCTAD - UNCTAD’s African Regional Partnership**

100% of the respondents support the proposed definition of value chain within the context of sustainability assurance engagements.

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

APESB supports the proposed definition of ‘value chain’ in the context of sustainability assurance engagements.

Feedback from stakeholders indicated support for the proposed definition, with the referencing to the applicable sustainability reporting framework considered appropriate.

**Professional Accounting Organizations (PAOs)****AE - Accountancy Europe**

We agree that defining the term value chain is a reporting concept that is often described in sustainability reporting frameworks. According to the European Sustainability Reporting Standards, value chain is the full range of activities, resources and relationships related to the undertaking’s business model and the external environment in which it operates.

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

Yes, we support the IESBA's proposed definition of value chain in the context of sustainability assurance engagements, including a sustainability assurance client's

customers and suppliers that are material for sustainability reporting purposes. The value chain does not include the components defined for the purposes of a sustainability assurance engagement group. The proposed glossary of terms defines value chain as follows: Value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.

The value chain could include, for example, a sustainability assurance client's customers and suppliers that are material to sustainability reporting. The value chain does not include components.

### **BICA - Botswana Institute of Chartered Accountants**

Supporting the proposed definition of "value chain" in the context of sustainability assurance engagements is crucial for providing a clear understanding of the entities involved in the assurance process.

### **CAI - Chartered Accountants of Ireland**

We support the proposed definition of "value chain" and consider it appropriate to apply the definition, description, or how it is otherwise specified in the applicable sustainability reporting framework, to the context of the requirements set out in the Code.

We draw attention to our response to question 19, regarding inconsistent use of terminology including "sustainability reporting framework" per this definition, and "general purpose sustainability reporting framework" as part of the definition of "General Purpose Framework" included in the glossary.

### **CFAR - Chamber of Financial Auditors of Romania**

We support the proposed definition of "value chain" in the context of sustainability assurance engagements., as it enhances transparency and facilitates the effective application of ethical standards. The proposed definition acknowledges that the reporting boundary for sustainability information may differ from that of financial statements, and that material value chain entities included in sustainability reporting may present threats to the firm's independence

### **CPAC - Chartered Professional Accountants Canada Public Trust Committee**

Yes, the PTC is supportive of the proposed definition because it is clear and will be easy for SAPs to apply.

### **EFAA - European Federation of Accountants and Auditors for SMEs**

We support the proposed definition of "value chain" in the context of sustainability assurance engagements.

In the EU value chain reporting will be a key aspect of sustainability reporting. Considerable numbers of non-listed SMEs across the EU, while outside the direct scope of the CSRD, stand to be impacted. Given the challenges presented by value chain reporting EFRAG is developing Value Chain Implementation Guidance.

The value chain provisions in the proposed standard are welcome and suitably accommodate value chain reporting under the CSRD. We also welcome the explicit

statement that the value chain does not include components as defined for the purposes of a group sustainability assurance engagement.

#### **ICAS - The Institute of Chartered Accountants of Scotland**

Yes – we support the proposed definition as discussed in paragraphs 102 and 103 of the Explanatory Memorandum.

#### **ICPAU - Institute of Certified Public Accountants of Uganda**

We support the proposed definition of “value chain” in the context of sustainability assurance engagements.

#### **IICA - Institute of Indonesia Chartered Accountants**

Yes

#### **IPA - Institute of Public Accountants (Australia)**

IPA supports the proposed definition of “value chain” in the context of sustainability assurance engagements.

#### **IWP - Institut Österreichischer Wirtschaftsprüferinnen**

Yes.

#### **JICPA - Japanese Institute of Certified Public Accountants**

We support the proposed definition of “value chain” in the context of sustainability assurance engagements.

However, we suggest the IESBA provide guidance on how to consider the proposed definition of “value chain” in the Code, because we assume that it is not easy in practice to identify value chain entities of which practitioners are required to be independent in a sustainability assurance engagement.

#### **KICPA - Korean Institute of Certified Public Accountants**

The KICPA supports the proposed definition.

#### **MICPA - Malaysian Institute of Certified Public Accountants**

We have no objection on the proposed definition of “value chain” in the context of sustainability assurance engagements.

#### **WPK - Wirtschaftsprüferkammer (Germany)**

We agree with the IESBA's view that the actual definition of “value chain” in the context of sustainability reporting should be left to the applicable reporting standard(s). This is also clearly stated in the first paragraph of the definition.

#### **Other Assurance Providers and Accreditation Bodies (non-PAs)**

##### **AA - AccountAbility**

We support the proposed definition of “value chain” in the context of sustainability assurance engagements. Aligning the definition with the applicable reporting framework is logical, as it ensures consistency with the reporting entity's boundaries for sustainability information. The inclusion of entities such as customers and suppliers, which are material

for sustainability reporting, is appropriate, given their potential impact on the sustainability performance of the reporting entity. The value chain is defined comprehensively and accurately, reflecting the interconnectedness of entities that contribute to or are affected by the reporting entity's sustainability performance.

### **Accounting Firms and Sole Practitioners**

#### **BDO - BDO International Limited**

BDO agrees that the definition applied should be consistent with the relevant sustainability reporting framework. BDO's concerns are in respect of the proposed independence considerations, as explained in the response to question 13 below, rather than the definition itself.

#### **EY - Ernst & Young Global Limited**

Yes, we support the proposed definition of "value chain" in the context of sustainability assurance engagements.

#### **MOORE - Moore Global Network Limited**

Yes, we support the proposed definition of "value chain" in the context of sustainability assurance engagements.

#### **MU - Muhammad Umar - Mo Chartered Accountants**

Yes we support such definition.

### **Academia and Research Institutes**

#### **DIRC - Deakin University Integrated Reporting Centre**

We support the proposed definition of "value chain" in the context of sustainability assurance engagements as a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.

The International Integrated Reporting Framework defines value chain with reference to business model as part of an entity's value creation process. This has been picked up in IFRS Sustainability Disclosure Standards, which draw on the contents of the International Integrated Reporting Framework in relation to value chain and business model.

## **Question 12 - Agree With Comments**

### **Regulators and Oversight Authorities, incl. Monitoring Group members**

#### **ESMA - European Securities and Market Authority**

ESMA supports the proposed definition of value chain in the revised glossary as this definition reflects – just like the notion of materiality of sustainability information used in the proposed Part 5 – the concepts set out in the underlying sustainability reporting framework. While we acknowledge that by referring to the underlying legal framework defining the value chain under a specific set of requirements or reporting standards, there will be diversity in the performance of assurance engagements depending on the applicable requirements, this is a necessary consequence of the different scope of the underlying legal frameworks to which international standards will apply.

However, ESMA notes that the definition of value chain proposed by IESBA indicates that the value chain does not include components. This specification may create divergence with the value chain notion that can be derived from the draft IAASB requirements where it is envisaged to acknowledge that part of the value chain of an undertaking may be within an entity's group structure.

### **Investors and Other Users**

#### **DIR - Daiwa Institute of Research Ltd**

Yes. If IESSA defines “value chain”, ISSA 5000 should also do so.

### **Public Sector Organizations**

#### **UNCTAD - UNCTAD's Latin America Regional Alliance**

I do support 60% of respondents

I am not sure 40% of respondents

### **Professional Accounting Organizations (PAOs)**

#### **ACCA - Association of Chartered Certified Accountants**

We broadly support the proposed definition of “value chain” in the context of sustainability assurance engagements. The definition of value chain refers to the concept of materiality, so is somewhat audit related. This may create challenges for non-PAs to understand that could in turn impact consistency of application.

#### **CAANZ - Chartered Accountants Australia and New Zealand**

We support in principle the proposal to define “value chain” by reference to the applicable reporting framework. However, we do have concerns whether the various reporting frameworks will sufficiently define this term in a consistent manner. Differing definitions could create possible ambiguity around its meaning depending on the reporting framework applied and, in some cases, the reporting framework may not adequately define the term.

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

We agree with the IESBA definition of a value chain. We agree particularly with the statement in the definition that value chain entities are not components.

However, here again, we note that the IESBA and the IAASB do not have the same definition of value chain, since the IAASB, through its concept of reporting boundaries, can consider value chain entities as components.

We definitely favor the IESBA definition which clearly excludes components from value chain.

#### **CPAA - CPA Australia**

While CPA Australia supports the proposed definition of “value chain” in the context of sustainability assurance engagements, we note the potential challenges faced by professionals who are not professional accountants in understanding and adopting the definition. Specifically, references to materiality and components may not be readily understood.

### **IFAC - International Federation of Accountants**

The definition of value chain refers to the concept of materiality, so is somewhat audit-related. This may create challenges for non-PAs to understand that could in turn impact consistency of application.

### **ISCA - Institute of Singapore Chartered Accountants**

We support the proposed definition of a “value chain” and recommend that IESBA coordinate with the IAASB to align the scope of the new defined term with that in the ISSA 5000 which is being developed. For example, whether the scope of a “value chain” includes components in the context of group SAEs.

### **MIA Malta - The Malta Institute of Accountants**

Whilst the MIA understands the rationale behind this definition, the application of such definition in practice may pose certain challenges and situations that would make it extremely difficult to issue an opinion on sustainability reporting. More work is required to identify such issues and challenges to determine whether the definition is appropriate.

### **MIA-Malaysian - Malaysian Institute of Accountants**

We are concerned that the definition of “value chain” states that “the value chain does not include components”. This may be misleading as the concept of the value chain spans the end-to-end activities, operations etc., and encompasses the reporting entity and, in the context of a group, its components, together with other upstream and downstream entities that form part of that overall value chain.

We recommend that this terminology be clarified when referring to entities in the value chain outside of the group (or organisational boundary, or an equivalent thereof).

### **PAFA - The Pan-African Federation of Accountants**

In principle, we support the proposed definition of “value chain” in the context of sustainability assurance engagements. However, it's worth noting that the definition references the concept of materiality, which is somewhat audit-related. This connection may pose challenges for non-Practitioner Accountants (non- PAs) to grasp, potentially impacting the consistency of its application.

### **SAICA - South African Institute of Chartered Accountants**

SAICA agrees with the definition of value chain however, we recommend that components should be part of value chain. The removal of the use of components is inconsistent with the use of value chain.

### **Accounting Firms and Sole Practitioners**

#### **KMPG - KPMG IFRG Limited**

We support the IESBA in their proposed definition of “value chain.” We note that this definition specifically states that “the value chain does not contain components” as defined for the purposes of a group SAE. In contrast, the update given by the IAASB ISSA 5000 Task Force to the Board on 20 March 2024 stated that a component might in fact be within the value chain. We understand this concept is still being developed and recommend that

the IAASB and IESBA work closely together on this. The definitions and concepts would need to be aligned for the standards to be workable.

We also recommend the IESBA consider defining the term “reporting boundary” in application material.

### **MAZARS - Mazars Group**

The value chain definition proposed includes a statement that “The value chain does not include components”. However, as referred to in question 10(b)(iii) there is an apparent inconsistency between the definition of the value chain in the proposed IESSA with some financial and sustainability reporting frameworks, in particular the treatment of joint ventures which may be considered components in financial reporting terms, but not in certain sustainability reporting standards (notably ESRS) in which case they may form part of the value chain. The IESBA may wish to consider whether additional clarity in the definition, or associated guidance, may be helpful in this regard perhaps by removing the use of “component” and referring to “entities within the organisational boundary” in the definition.

### **PKF - PKF Global**

We recommend the definitions of key terms used in the IESSA should, as far as possible, align with definitions used, or defined, in ED ISSA 5000. While the definition of “value chain” in the IESSA is reasonably well aligned with the use of “value chain” in ED ISSA 5000, we note that the IESSA definition excludes “components” from its definition of “value chain”. In our view this could lead to confusion since ED ISSA 5000 does not define “component” and does not use the term “component” in an equivalent context to the use of the term in the IESSA.

Additionally, we encourage the IESBA to consider whether the definition of value chain entity should make explicit reference to public interest entity. Such a reference could help to clarify whether or not a value chain entity could also be classified as a public interest entity from the perspective of the sustainability assurance practitioner.

### **PwC - PricewaterhouseCoopers International Limited**

Yes, with comments below

As referenced in our answer to Q10, we are supportive of the approach taken by IESBA in determining the independence requirements and considerations that are relevant to value chain entities. We believe this is the right approach and appropriately reflects the different characteristics and potential for independence threats to arise. We also note that the definition of value chain, and specifically value chain components, is defined differently in the current exposure draft of ISSA 5000. As noted in our cover letter, when different definitions are used for the same or similar terms, we believe there is potential for implementation challenges, confusion and inconsistency in application to result.

### **RSM - RSM International Limited**

We support the proposed definition of ‘value chain’ in the context of sustainability assurance engagements based on the reasons explained in paragraph 103 of the EM.

The proposed revised glossary in ED-IESSA defines a component as:



For a group sustainability assurance engagement, an entity, business unit, function or business activity, or some combination thereof, determined by the group sustainability assurance firm for purposes of planning and performing assurance procedures in the group sustainability assurance engagement. This excludes entities within the value chain. [emphasis added]

Entities and business units included in group sustainability information and entities included in the value chain are generally determined by the reporting framework. Components are determined by the group sustainability assurance firm. Although components and entities and business units included in group sustainability information are, in total, the same, components can be comprised of multiple entities and/or business units within the group sustainability information. In addition, paragraph 104 of the EM says, ‘value chain entities are not part of the client’s organizational boundary and are not under its control.’ Entities that are part of the reporting entity’s organizational boundary are generally within the group sustainability information. In order to promote consistency with being determined by the reporting framework, we propose the definition of ‘value chain’ be revised as follows:

The value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.

The value chain might include, for example, a sustainability assurance client’s customers and suppliers that are material for sustainability reporting purposes.

The value chain does not include components excludes entities or business units included in the group sustainability information and are not under control of the reporting entity.

### **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.

We agree with “value chain” as a reporting concept and accept that its definition can vary across existing reporting frameworks. However, we have reservations about the proposed definition allowing scope for firms and/or sustainability assurance practitioners to decide what is the “applicable reporting framework” in the context of sustainability assurance engagements. We would consequently expect the reporting of value chain sustainability information in accordance with the self-interests of reporters (which may be unsuitable to the informational needs to stakeholders).

Currently, the proposed definition does not help assess the applicability of the definition. According to IFRS S1, “A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity’s operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates”. The term “value chain entity” used in the ED is somewhat consistent with the GHG (Greenhouse Gas) Protocol, which defines “value chain” as “all the activities that are associated with the operations of the reporting company,



both upstream and downstream including the use of sold products by consumers and the end-of-life treatment of sold products after consumer use”.

The current ED indicates that the value chain entity may consist of suppliers or customers. However, in the upstream value chain, there will likely also be direct and indirect suppliers, defined as Tier 1 and Tier 2 suppliers in the GHG Protocol. Tier 1 suppliers are companies that provide or sell products directly to the reporting company, while Tier 2 suppliers are the ones that provide or sell products directly to the reporting company's Tier 1 supplier. For instance, in the case of reporting modern slavery, a company's Tier 1 supplier may not include child labour. However, the Tier 2 supplier potentially could have child labour involved in the supply chain resulting in child labour to the reporting company. Given the nature and complexities among value chain entities, greater consideration is required when defining all the potential entities comprising the value chain.

### NSU - Nova Southeastern University

Question 12 opinions in favor:

- I support the proposed definition of “value chain” in the context of sustainability assurance engagements. A value chain, in general, aims to strengthen an entity's point of view and widen profit margins, essentially driving efficiency and reducing costs. The proposed definition considers specific circumstances or relationships relating to value chains that can threaten a firm's independence, which can lead to consequences relating to the public's trust. The proposal outlines the definition and the areas of sustainability reporting that differ from the boundaries of financial statements.
- I support the proposed definition of "value chain." Clarity in terminology is essential for effective communication and understanding among practitioners. A clear definition facilitates the identification and assessment of assurance activities related to value chain entities, contributing to the overall integrity of sustainability reporting.
- I agree with the definition of a value chain. Within the company's value chain, several or a few of the elements affect sustainability, but not all. For example, the shortage of one raw material cannot be an issue of sustainability as long as there are numerous suppliers of the same material. However, if a single supplier files for bankruptcy, this is where the issue of sustainability in the value chain matters.
- I support the proposed definition of “value chain” in the context of sustainability assurance engagements as it suggests defining the value chain of a client through referencing the applicable reporting framework. I believe the definition states properly accounts for the differentiating information from sustainability information and the reporting boundary for financial statements.
- The proposed definition of "value chain" provides clarity and context for sustainability assurance engagements, assisting practitioners assess the full scope of an entity's environmental and social impacts. Understanding the value chain allows practitioners to identify material issues and assess their significance to stakeholders. Supporting this definition encourages transparency and accountability in sustainability reporting. By considering the entire value chain, practitioners can guarantee that their assessments accurately reflect an entity's environmental and social performance, thereby meeting the needs of stakeholders and contributing to informed decision-making.

- I support the proposal on the value chain definition related to sustainability assurance in the new code of IESBA. My support of the new definition is given by the fact that while on a regular audit engagement, we need to see the company's performance independently of suppliers and customers and only provide reasonable assurance on their financial statements, but, when we take into consideration the sustainability of a product or process we also need to consider the sources of the materials required to obtain the product and the future expected life or recycling options when the product requires disposal. In this instance, we cannot view or evaluate the company as a standalone entity, but we need to take into consideration the sustainability of the process as a whole and include in the scope of our analysis at least the fundamental suppliers and customers. This might be the only way to provide assurance on the sustainability of the operations.

Question 12 opinions opposed:

- I believe the definition of “value chain” in the context of sustainability engagements is a bit confusing. The definition does not seem super clear in my opinion. I believe the example given of the sustainability assurance client's customers are suppliers helps us understand what value chain is in this context, but I believe a more exact definition should be given. For example, when defining “sustainability information” the standard gave a clear and concise definition. In this scenario, I don't understand what the value chain is referring to specifically unless the example is given. I think it would be helpful for the value chain definition be clear and offer more examples.
- I do not support the proposed definition of the value chain because it is too narrow and vague. I believe that the context of sustainability assurance should have captured more in the definition of value chain. For instance, the definition of a value chain should capture other companies and resources that provide value to the audited firm. If other resources are included in the IESBA definition of a value chain, they will provide depth and meaning to the value chain in the aspect of sustainability.
- I do not completely agree with the explanation of value chain included in the document. A value chain is the activities necessary to make a product or deliver a service. However, the document is proposing that a value chain includes the client's customers and suppliers. The document also states that the new value chain definition is for sustainability reporting purposes which is not what a true value chain is. I think they should come up with a different name for the new definition they are proposing.
- Value chain is the full life cycle from beginning to end of a product or service. The definition proposed discusses who and what information in the business value chain will the sustainability assurance practitioner include in their engagement report. As the practitioner look at various cycles of the business, it can become daunting to decide what information to include whilst still ensuring the report is relevant. Most importantly, they need to ensure their report is independent even when they have to use another practitioner information based on the value chain entity. I support the definition to a degree but would add that it should be more definitive and encompassing. More details should be provided to guide sustainability assurance practitioner as to how to decide what information is relevant and more details around value chain entity that would aid in their decision making as they prepare their report.

## **Question 12 - Disagree**

### **Regulators and Oversight Authorities, incl. Monitoring Group members**

#### **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.

In particular, the proposed definition of “value chain” in the context of sustainability assurance engagements may lead to diversity in practice given the diversity of concepts underlying the definition in different sustainability reporting frameworks. To promote consistent application of the various requirements in Part 5 of the Code, we believe the IESBA should consider a definition of “value chain” that is anchored in the concept of information originating outside of the entity's organizational boundary.

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

NASBA believes that the concept of sustainability assurance could be broadly applied, and its application will be a challenge to the practitioner. As such, NASBA believes the definition of “value chain” in the context of sustainability assurance engagements should not rely solely on examples, but instead should provide concepts that the practitioner can utilize in determining who or what is part of the value chain.

### **Independent National Standard Setter**

#### **NZAuASB - New-Zealand Auditing & Assurance Standard Board**

Given the complexities surrounding the value chain, we believe that the sections 5407 and 5700 on value change should be removed from Part 5 at this time. Instead, we recommend that the IESBA develop non-authoritative guidance related to value chain entities that sits alongside the Code. This would enable the guidance to be developed, updated and added to overtime. Our responses to Question 12, 13 and 14 are made in this context.

If the IESBA determines it necessary to cover the value chain, we support that value chain is defined within the sustainability reporting framework applied by the assurance client because different reporting frameworks might contain different definitions. We found it useful that the examples in the IESBA value chain definition include customers and suppliers of the assurance client.

Value chains of some assurance clients might include many entities. We ask the IESBA to clarify that independence considerations would be important in relation to those value chain entities that are material for sustainability reporting purposes as opposed to all entities within the value chain. This clarification is included in the EM in paragraphs 102 and 103 but it is not clear in the definition or relevant sections in the ED.

### **Professional Accounting Organizations (PAOs)**

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

Overall response: No.

Detailed comments: Paragraphs 102 and 103 of the explanatory memorandum describe the definition for this term more clearly. IFRS 1, General Requirements for Disclosure of Sustainability-Related Financial Information, defines value chain and we believe that definition could be helpful in assisting the IESBA in drafting guidance for value chain within the code. The value chain as defined in IFRS isn't described as an entity but "interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates." It seems as though guidance for this definition could better describe a "value chain" as interactions, resources and relationships with an entity, within the reporting boundary but outside of the reporting entity (or organizational boundary), that includes information in the sustainability assurance client's report for sustainability reporting purposes.

We agree with the last sentence included in the definition as guidance that indicates that components are not included in the value chain.

### **ICAEW - Institute of Chartered Accountants in England and Wales**

We consider that the proposed definition of "value chain" might be confusing, particularly to non-Professional Accountants.

Firstly, we note that the proposed definition explicitly refers to materiality. We have concerns about whether this concept will be fully understood by non-Professional Accountants and applied in a way consistent with the practice of the accountancy profession. It might therefore be helpful to include additional guidance/signposting to guidance on materiality in relation to sustainability assurance.

In this regard, we note that a "hotspots analysis" or an approach based on risk might be a more useful way of assessing (and quantifying) the issue of materiality in a sustainability assurance context, particularly in relation to reporting on bio-diversity.

Further, as regards sustainability, the concept of materiality may include reference to human rights and ESG considerations, which are difficult to quantify, and which may require different weightings for different entities within a value chain. We consider that detailed additional guidance and worked case studies would be useful to ensure consistency of approach by both Professional Accountants and non-Professional Accountants undertaking a Sustainability Assurance Engagement.

Secondly, we note that the proposed definition refers to "components" which is also a term which might not be immediately familiar to non-Professional Accountants. We consider that the wording used in the explanatory memorandum might be a more helpful way of expressing the concept: "Value chain entities are not part of the client's organizational boundary and are not under its control."

We consider that it would be helpful to explicitly clarify the position of joint-ventures and whether they are to be considered as components and therefore within an entity's value chain. The proposed definition of value chain includes the statement that "The value chain does not include components". However, as referred to in question 10(b)(iii) there is an apparent inconsistency between the definition of the value chain in the proposed IESSA with some financial and sustainability reporting frameworks, in particular the treatment of joint ventures which may be considered components in financial reporting terms, but not in certain sustainability reporting standards (notably ESRS) in which case they may form part

of the value chain. We consider that it would be helpful for IESBA to provide greater clarity in the definition, or associated guidance. This might include removing the use of “component” and referring to “entities within the organisational boundary” in the definition.

More fundamentally, we are concerned at the apparent divergence of approach between IESBA and ISSB on this issue. The approach taken by ISSB appears to consider “value chain” as a component in a group engagement. However, the IESBA approach appears to be that, for independence purposes, the value chain is not to be considered a component.

#### **IDW - Institute der Wirtschaftsprüfer (Germany)**

No. We do not believe it is necessary for IESBA to attempt to define this term. Indeed, the proposed definition only refers to concepts defined in the applicable sustainability reporting framework and is therefore not a definition. There is no definition for “value-chain” in the ISSA 5000 ED so far. If a definition is required, this should be agreed and aligned with the IAASB sustainability project.

#### **SOCPA - Saudi Organization for Chartered and Professional Accountants**

SOCPA believes the definition relies on the specific sustainability reporting framework, which can vary. This might lead to inconsistencies in how different firms define and assess the value chain for assurance purposes which would be of significant concern. Therefore, SOCPA believes the definition should be made more generic to ensure no matter which framework is followed, the concept of “value chain” stays the same.

#### **Accounting Firms and Sole Practitioners**

#### **Assirevi - Association of Italian Audit Firms**

Assirevi agrees that the value chain is not considered a component of the group sustainability assurance. However, considering the current absence of a performance standard applicable in the context of group sustainability assurance engagements, as illustrated above, it is believed that the definition should be reevaluated following the issuance of the reference standard. Notwithstanding the above, see comments to questions nr. 13 and 14.

#### **DTTL - Deloitte Touch Tohmatsu Limited**

Deloitte Global notes the definition of “value chain” in the IESSA refers to the definition and description of value chain as specified in the applicable sustainability reporting framework under which that the entity is reporting. This supports the IESBA's aim of developing a proposed standard that is framework-neutral.

However, the IESSA proposes independence requirements that will be applicable to “value chain entities,” but this term is not defined. In addition to our significant concern with this conceptually as explained below, the lack of a definition makes it unclear how the sustainability assurance practitioner will apply these independence requirements in practice or assess the impact especially when using the work of another practitioner. This lack of clarity will cause variations in understanding, application and compliance, which is not in the public interest. If the IESBA retains this concept, a separate definition for “value chain entity” that clearly identifies which entities within the value chain would be relevant to the evaluation of independence is critical.

### **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.

### **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.

## **Question 12 - No Specific Comments**

### **Regulators and Oversight Authorities, incl. Monitoring Group members**

CEAOB - Committee of European Auditing Oversight Bodies

IAASA - Irish Auditing & Accounting Supervisory Authority

IFIAR - International Forum of Independent Audit Regulators

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

SAAJ - The Securities Analysts Association of Japan

### **Preparers and Those Charged With Governance**

Asma Jan Muhammad

BD - Bruno Dirringer

ICFOA - International CFO Alliance

### **Public Sector Organizations**

GAO - US Government Accountability Office



### **Professional Accounting Organizations (PAOs)**

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

FACPCE - Federación Argentina de Consejos Profesionales de Ciencias Económicas

GAA - Global Accounting Alliance

HKICPA - Hong Kong Institute of Certified Public Accountants

INCP - National Institute of Public Accountants of Colombia

NBA - Royal Netherlands Institute of Chartered Accountants

NYSSCPA - New York State Society of CPAs

PICPA - Pennsylvania Institute of Certified Public Accountants

### **Other Assurance Providers and Accreditation Bodies (non-PAs)**

IAF - International Accreditation Forum

JAB - Japan Accreditation Board

### **Accounting Firms and Sole Practitioners**

BKTI - Baker Tilly International

### **Academia and Research Institutes**

NNN - Nada Naufal Director at the American University of Beirut

NRS - Professor Nicole Ratzinger-Sakel

### **Others**

IBA - The International Bar Association

IIA - The Institute of Internal Auditors