

Agenda Item 1-C (Updated)

Draft Minutes of the 87th Meeting of the INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

Held on June 10-13, 2024 in New York, USA

Voting Members

Present: Gabriela Figueiredo Dias (Chair)
Laurie Endsley (Vice Chair)
Saadiya Adam
Mark Babington
Vania Borgerth
Richard Huesken
Tomoyo Imura
Sung-Nam Kim
Héctor Lehuedé
Rania Uwaydah Mardini
Christelle Martin
Andrew Mintzer
Paul Muthaura
Luigi Nisoli
Amarjeet Singh
Channa Wijesinghe
David Wray

Technical Advisors

Keith Billing (Mr. Babington)
David Clark (Mr. Huesken)
Ellen Gorla (Mr. Mintzer)
Marta Kramerius (Mr. Nisoli)
Charles Luo (Mr. Muthaura) (Day 1)
Ki-Tae Park (Mr. Kim)
Andrew Pinkney (Ms. Endsley)
Natashia Soopal (Ms. Adam)
Bruno Tesnière (Ms. Martin)
Kristen Wydell (Mr. Wijesinghe)
Masahiro Yamada (Mss. Borgerth and Imura)

Non-Voting Observer

Present: Yohei Ito, Japanese Financial Services Agency (FSA)

Public Interest Oversight Board (PIOB) Observer

Present: Tomoyuki Furusawa

IESBA and IFAC Staff

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Program and Senior Director), Linda Biek (Director), Geoffrey Kwan (Director), Laura Leal, Kam Leung, Jon Reid, Szilvia Sramko, Carla Vijian, Joanna Bernard (Days 2-4), Jeanne Viljoen, Astu Tilahun, Diana Vasquez
David Johnson (IFAC Communications)

1. Opening Remarks

WELCOME AND INTRODUCTIONS

Ms. Dias welcomed all participants and observers to the second meeting of 2024. She extended a special welcome to former IESBA member Ms. Liesbet Haustermans and former Technical Advisor Ms. Denise Canavan, both of whom were assisting Mr. Nisoli and observing the meeting, virtually and in person, respectively. She also welcomed former IESBA Deputy Chair Richard Fleck, Consultant to the Firm Culture and Governance and CIVs work streams, as well as former Technical Advisor Mr. Jens Engelhardt.

Ms. Dias then updated the Board on the activities of the Planning Committee (PC) during the quarter, including updates on the various workstreams as well as a report-back on the inaugural IESBA-IAASB Stakeholder Advisory Council (SAC) meeting in April; the planning of the June 2024 Board meeting, and recent and upcoming outreach activities.

APPROVAL OF MINUTES

The IESBA approved the minutes of the March 2024 public session as amended.

2. Firm Culture & Governance

Mr. Wijesinghe, Chair of the Firm Culture and Governance Working Group (FCGWG), commenced the session by recapping the March 2024 meeting discussions.

KEY THEMES EMERGING FROM STAKEHOLDER OUTREACH

Messrs. Wijesinghe and Kwan and Ms. Vijian briefed the Board on various in-person and virtual outreach engagements, as well as discussions with the newly formed SAC and the IESBA-National Standard Setters (NSS) liaison group, between April and May 2024. Ms. Dias, Messrs. Wijesinghe and Kwan, and Prof. Jens Poll also attended, in their capacity as witnesses, a [public hearing](#) held by the Australian Parliamentary Joint Committee on Corporations and Financial Services (PJC) on [Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry](#) on May 8, 2024 (Audit Firm Inquiry).

Mr. Wijesinghe and Ms. Vijian then updated the board on the key themes emerging from the stakeholder outreach, emphasizing that these themes reflected stakeholder views rather than the FCGWG's positions. Mr. Wijesinghe also clarified that the matters identified under key themes, such as talent retention and differences in ethical behavior between audit and consulting practices, include observations made by stakeholders during outreach as well as information from existing reports. Additionally, consistent observations have emerged in some areas from the various outreaches across different stakeholder groups and jurisdictions.

The Board acknowledged again the strategic importance of this workstream and supported the outreach conducted to date. Among other matters, IESBA participants also raised the following comments or suggestions:

Scope of the Work Stream

- Whether the FCGWG had a position regarding the distinctions between audit and consulting practices. Mr. Wijesinghe responded that the FCGWG had yet to formulate its view but emphasized that the work stream will look at the whole of a firm and not only a firm's audit or consulting practice.

- What the implications of extending the impact of the Code to non-professional accountants (PAs) would be in the context of this work stream, given the IESBA's strategic commitment to explore extending the impact of the Code to individuals who perform the same activities as PAs but are not PAs. Mr. Wijesinghe stressed that the FCGWG's terms of reference clearly state that the scope of this work stream focuses on accounting firms. IESBA members also acknowledged the importance of managing expectations for this work stream.

Stakeholders

- What the role of firms would be within the ecosystem and whether stakeholders believe firms should enhance their internal practices to mitigate deficiencies in regulations. Messrs. Wijesinghe and Kwan emphasized the necessity of considering the entire ecosystem and recognizing that each stakeholder group has a role to play. Ms. Vijian highlighted feedback from some firms that they have established global policies to ensure consistent practices across their networks.
- Regulators are setting regulations for global firms through a national lens, resulting in inconsistent approaches across jurisdictions. While audit is highly regulated, other services may be less or more regulated, depending on the jurisdiction. Therefore, it would seem that addressing the topic from a principles-based perspective is the right approach.
- It is important to seek the views of small and medium practices (SMP) in the consultation process, as some jurisdictions, such as India, have a high percentage of SMP audit firms. Mr. Wijesinghe noted that the FCGWG will meet with IFAC's SMP Advisory Group.
- The FCGWG was encouraged to expand its outreach to more investor groups, acknowledging that this may be difficult at times, as well as with those charged with governance (TCWG).
- The crucial role of Professional Accountants in Business (PAIBs) in upholding ethical standards within their organizations was emphasized.
- It is important that this workstream embraces jurisdictional diversity in culture. In this regard, Messrs. Wijesinghe and Huesken noted that some regulators from the ASEAN (Association of Southeast Asian Nations) region have highlighted that local culture would impact the understanding and implementation of ethics standards, and therefore what would be considered acceptable ethical behavior. Some stakeholders in other developing jurisdictions also supported this view.

Key Themes

- With regard to the role of the profession and its responsibility to act in the public interest, the tension created by a firm's revenue growth aspirations and its public interest obligations.
- There is a need for firm leadership to actively work towards elevating ethical awareness across all business lines.
- Whether there has been any discussion with stakeholders on the potential bias in the current payor model whereby auditors are hired and fired by the auditee. There was a view that while clear solutions may not be apparent, this is often perceived as the root cause of governance and culture-related problems. Mr. Wijesinghe responded that the relevance of the audit client had been raised only in the context of who the client is and that the payor model is not a focus of the project.

Other Matters

- The IESBA should also consider good news stories about firms improving their ethical culture. An example was shared of a consulting partner transitioning to audit and enhancing quality despite initial challenges. Such a narrative illustrates the beneficial impact of strong leadership and consistent messaging. It was suggested that documenting these success stories could serve as case studies for other firms undergoing similar transformations. Mr. Wijesinghe indicated that there are instances of successful cultural transformations within firms, and that this emphasizes the significance of leadership and consistent ethical messaging. He agreed that documenting these cases will provide valuable insights for other firms facing comparable challenges.
- While fraud cannot be prevented entirely by standards, good standards on important matters such as transparency and education help to reduce the opportunities for unethical behavior and facilitate the identification of such unethical behavior.
- There was a suggestion to draw from the experience, including lessons learned, from the securities markets' regulatory frameworks, including corporate governance frameworks and credit rating regulations. Other suggestions raised included the use of culture audits and the development of specific metrics for evaluation and performance management.
- Whether heightened ethical requirements negatively impact hiring, especially with respect to consulting services. Mr. Wijesinghe responded that talent shortage is a global issue and not necessarily linked to ethics issues within firms.

ACADEMIC RESEARCH

Mr. Kwan provided a brief summary of Dr. Eva Tsahuridu's report on findings from a review of academic literature in this area, noting that academic studies have highlighted the strong link between ethical culture and employee behavior, and the role of leadership and a governance framework in influencing ethical culture.

A query was raised about whether there are any studies on how social media and technology influence culture.

PRESENTATION ON UK FRC AUDIT FIRM GOVERNANCE CODE

Mr. Babington provided an overview of the United Kingdom Financial Reporting Council's (UK FRC) Audit Firm Governance Code (AFGC), including its background, scope, purpose, and key elements. He noted that, among other matters, the AFGC:

- Has a similar structure to general corporate governance codes, operating on a principles-based approach, with provisions applied on a comply-or-explain basis.
- Incorporates the Principles of Operational Separation for the largest firms in the UK.
- Describes what the public interest is in the context of audit.
- Includes the appointment of independent non-executives (INEs), who are not employees of the firm or responsible for its strategy and performance. Instead, their role is focused on how the public interest is represented in the firm.

Among other matters, IESBA members raised the following comments or suggestions:

- Whether audit firms have extended the application of the AFGC to other areas of their business, such as the non-audit arms, including consulting. Mr. Babington responded that initially, INEs concentrated on audit quality. Their role has since broadened to include a firm's overall operations and resilience, recognizing that non-audit activities could impact the firm's stability. Mr. Babington highlighted that firms now have INEs overseeing both audit and non-audit service lines, ensuring that operational resilience extends beyond audit.
- Whether the FRC was aware of any jurisdictions that have used the AFGC as a foundation to develop similar codes. Mr. Babington indicated that discussions had taken place with several jurisdictions, including Japan. He highlighted the interest in the AFGC from other jurisdictions, such as Australia, where it was a topic of inquiry by the PJC during his appearance as a witness to one of its public hearings.
- On the topic of INEs:
 - Queries were raised regarding the criteria for determining who qualifies as INEs and the mechanisms for ensuring their effective independence. It was noted that there have been instances where INEs were former partners of the same firm still receiving remuneration, suggesting a lack of oversight of their independence.

Mr. Babington clarified that the AFGC emphasizes the importance of an independent mindset and the avoidance of conflicts of interest, such as through not allowing INEs to hold board roles in entities audited by the firm they serve. The AFGC does not include INEs as decision-makers within the audit process, thus protecting their independence. Additionally, while INEs may have backgrounds in audit firms, there are guardrails like cooling-off periods, and they cannot serve in a firm where they were previously employed. The diversity of individuals in INE roles, including those without audit backgrounds, was also highlighted.

- Regarding the knowledge and experience of INEs, it was acknowledged that while INEs often come from audit firms, there is a need for INEs to have wider diversity of experience. Mr. Babington noted that the AFGC encourages firms to bring in INEs with a wide range of experiences, such as from government, public policy and regulation, and corporate boards.
- Queries were also raised about the role of INEs, specifically how they are informed and the nature of their involvement in a firm's governance. Mr. Babington explained that INEs are not decision-makers, but they provide advice, challenge, and counsel, often participating in discussions at the firm's board or audit board level. The approach to their role can vary depending on a firm's structure, with some INEs becoming more integrated into the firm's broader governance over time.
- Jurisdictions have varying experience with independent directors. In the UK, there is a robust tradition of independent governance. However, the challenge in other jurisdictions, where the experience with independent directors is more limited, lies in adapting these practices to different legal and corporate structures. Mr. Babington observed that in jurisdictions with less experience with INEs, ensuring INEs are provided with the necessary information to perform their roles is crucial. The expectation is that they should be equipped with the relevant information to contribute effectively, similar to the obligation placed on boards to inform non-

executive directors under company law. However, he recognized that this is a complex challenge that needs careful consideration and adaptation to different settings.

- On the topic of firm ownership:
 - Mr. Furusawa highlighted a challenge with the partnership structure of audit firms, which is the lack of separation of ownership and management. This makes it crucial for INEs to understand and prioritize the public interest. He emphasized the importance of selecting the right individuals for INE roles. He suggested that engaging in dialogue with standard setters or regulators is a critical step. He also noted that acceptance of INEs by the big four firms in Japan has been very positive, with improved openness and engagement among partners.
 - Mr. Babington also mentioned that in the UK, most firms are structured as limited liability partnerships, meaning ownership and management are combined, which underscores the importance of introducing independent challenges into the governance structure. He pointed out that European law still requires a majority of ownership in audit firms to be held by PAs. Despite these challenges, the firms have embraced the introduction of independent challenges, indicating a positive reception to INEs in the UK.

PRESENTATION ON ISQM 1

Ms. Julie Corden, IAASB Board member and ISQM 1¹ Task Force Chair, presented an overview of the implementation of ISQM 1, focusing on the governance and leadership component, the assignment of responsibilities, the importance of setting the right tone from the top, and the wide impact of the standard across a firm. She also highlighted the need for firm-wide engagement and the role of quality surveys in assessing and improving firm culture.

Among other matters, IESBA members raised the following comments or suggestions:

- How ISQM 1 might impact the non-audit areas of a firm, such as a tax advisory, from the perspective of culture and governance. Ms. Corden indicated that the impact could vary from firm to firm. However, tax specialists involved in engagements within the scope of ISQM 1 might be influenced by firm policies related to ethics, independence, and competence.
- Other queries focused on the challenges of implementing ISQM 1, particularly the resources needed and the variability in its application across different firms and jurisdictions. Ms. Corden responded that implementing ISQM 1 is a substantial effort involving time, documentation, and coordination across a firm's network, with a need to adapt the standard to fit firms of different sizes and local regulatory requirements. She also mentioned the importance of continuous improvement and monitoring to maintain the standard's effectiveness over time.

Ms. Corden agreed that appropriate coordination with IAASB on the topic of firm culture and governance would be helpful.

¹ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

PIOB OBSERVER'S REMARKS

Mr. Furusawa emphasized the importance of the FCGWG anchoring its next step to the fact-finding exercise in order to identify the solution. He stressed the need to thoughtfully integrate the data, insights, and perspectives gathered into the next stage. Additionally, Mr. Furusawa highlighted the importance of articulating the behavioral changes expected from the solution. He felt that revisiting the work stream's initial objectives during the finalization process may be crucial.

WAY FORWARD

At its September 2024 meeting, the IESBA will consider the FCGWG's preliminary report and recommended way forward.

3. Collective Investment Vehicles, Pension Funds and Investment Company Complexes

Ms. Biek, Mr. Reid and Ms. Viljoen summarized the Project Team's work to date on Collective Investment Vehicles (CIVs), Pension Funds and Investment Company Complexes (ICCs), highlighting the following with respect to these investment schemes:

- Potential inconsistencies when applying the Code's non-assurance services (NAS) provisions;
- Jurisdictional responses to questionnaires about how they each deal with auditor independence; and
- Initial views regarding possible options to address potential gaps in the application of the Code's independence provisions.

The Project Team reminded the Board that it has followed the objectives as set out in the Terms of Reference, which focus on possible gaps in the application of the independence provisions and the "related entity" definition in the Code with respect to CIVs and pension funds.

Among other matters, IESBA participants raised the following comments:

- Whether using "indirect service" in respect of NAS would capture too many services and impact other entities such as publicly traded entities, banks, and insurance providers, which are mandatory Public Interest Entity (PIE) categories. It was also noted that European Union (EU) auditor independence provisions have referred to "direct and indirect" NAS since 2016; however, there have been some inconsistent interpretations.

Mr. Reid indicated that the principles regarding "indirect service" could relate to a variety of entity types. For illustration, he referred to the Technology-related revisions to the Code, which clarify that "indirect services" involving technology are subject to Part 4A of the Code. Introducing a similar "signpost" to "indirect services" relevant to audits of CIVs and pension funds might address inconsistent application.

An IESBA member noted this Technology-related revision expanded the principles from the NAS revisions to the Code and clarified that there is clearly a self-review threat when a firm designs, builds, implements, or operates a system for an entity and that system impacts the financial statements of the firm's audit clients.

- Whether alternative terminology, e.g., "beneficiary of the service", with respect to NAS would better represent the relevant circumstances and, if so, whether the conceptual framework adequately addresses the risks.

- An observation that some third parties provide limited services under contract, which should be dealt with via service organization reports rather than being included in the scope of the audit engagement.
- A need for greater clarity about the risks and threats that are not addressed by the Code. In this regard, a suggestion was made to review the independence provisions in the Code, identify any use cases where the Code is not fit for purpose for investment schemes and determine how to address these gaps.
- Whether the work stream should include pension funds with a relatively small number of investors, private equity for sophisticated investors, and hedge funds, all of which might not entail a significant public interest.
- A caution to be alert to unintended consequences of the proposed options as some jurisdictions treat these investment schemes as PIEs and changes to the Code may capture entities that were not intended to be included.

Mr. Reid responded that the Project Team is not recommending including investment schemes as mandatory PIE categories or assessing whether the Code's PIE independence provisions should apply to such schemes. He added that the focus is on the "related entity" definition and whether all relevant entities are captured from an independence perspective.

Mr. Siong highlighted that the Terms of Reference clearly state the objective is to review investment schemes and their relationships with trustees, managers and advisors, to gain a comprehensive understanding of these arrangements, and to ensure that the Code's independence provisions and related entity definition remain fit for purpose. He emphasized that the Project Team is not addressing whether CIVs should be PIEs. In this regard, he referred to paragraph 104 of the PIE project's Basis for Conclusions, which notes that a post-implementation review will consider the effectiveness of the PIE provisions after a sufficient implementation period. He added that certain management companies of investment schemes are not currently related entities under the Code, a gap that he felt should be addressed. He was of the view that non-authoritative material (NAM) alone is unlikely to be sufficient.

- Some observations regarding whether third parties "control" investment schemes:
 - Decision-making authority over investments and the ability to change appointed entities are important considerations. With some investment scheme structures, an entity that makes decisions regarding the investment mix and retention of the contracted parties is significant for assessing independence.
 - The legal structure of schemes, investors and relevant components may impact independence, especially when a management company controls the scheme. Consideration should be given to whether a third party with a significant impact on a scheme is already deemed to be a related entity.
 - Whether the management company's fiduciary obligations to act in the investors' best interest reduces any threats to independence where a management company has control/operational rights over a scheme.
- The Project Team's research reveals the complexity of investment schemes around the world and the difficulty of addressing issues in a global Code. If any changes to the Code the IESBA might propose add to the complexity, investment schemes might have trouble engaging auditors, which

would be contrary to the public interest. An alternative perspective noted that global benchmarks or baselines are often developed where there are jurisdictional differences and complexities.

- The IESBA should not wait for an audit failure before acting as the size of the industry and the magnitude of the related public interest continue to grow. On the other hand, there appears to be a lack of evidence indicating that investment schemes have failed due to a lack of auditor independence.
- Whether there are lessons to be learned from jurisdictions that have dealt with auditor independence for investment schemes and whether outreach to jurisdictional stakeholders has indicated a sense of urgency to address the independence of scheme auditors.

Ms. Biek and Mr. Reid noted that no such urgency has been flagged, and that some jurisdictions have indicated that they had already addressed auditor independence with respect to the investment schemes. However, they noted that there is no global baseline for independence requirements in this area, which means that there may be risks for jurisdictions that have not addressed potential independence threats.

- A suggestion to research the IOSCO principles for CIVs and the definitions of open-ended funds, closed-ended funds, and EFTs.

In relation to the preliminary options to address the inconsistent application of the Code's independence provisions to investment schemes, IESBA participants raised the following, among other matters:

- The Project Team's work supports consideration of a future project on the definition of "audit client."
- The proposed options raise provocative issues that might transcend investment schemes and impact other entities like banks and insurers with multiple divisions and similar third-party relationships.
- While there might be merit in amending the definition of "related entity," doing so would come with challenges.
- There are already various definitions of "control" and "significant influence" established under rigorous due process in other standards, which would make defining these concepts in a global Code challenging.
- Definitions should only be changed to address inconsistent application or identifiable gaps. It would be important to avoid divergence of terms to maintain interoperability with other standards.
- NAM might help address inconsistent application, but it should only be considered if it adds value.
- Consideration should be given to other potential options, e.g., whether the Code should include a definition of "investment scheme" and relevant related entities. It was, however, noted that there are challenges to the latter approach, so the IESBA would need to ensure the definition is principles-based and properly captures new types of funds that may be on the horizon.

Ms. Dias thanked IESBA participants for their engagement and highlighted the following matters:

- There was a call from stakeholders, including the PIOB, to undertake a holistic review of investment schemes; however, the Project Team's mandate is not to reopen the revised PIE definition, which is not even effective until December 2024. The Project Team will continue analyzing whether the Code's independence provisions are fit for purpose for these schemes.

- Investment schemes have become as important as listed entities because they contain significant amounts of retail investors' savings and retirement funds, underscoring the need for robust investor safeguards. Therefore, given the level of public interest in these schemes, the IESBA should be proactive and not wait for a market failure before acting.

PIOB OBSERVER'S REMARKS

Mr. Furusawa emphasized the importance of clearly identifying the public interest issues in the work stream, which might include addressing risks in this growing area. He referred to the recent ICC rule changes in the US and encouraged the Project Team to consider the underlying reasons for the changes.

WAY FORWARD

The Project Team will continue desktop research and stakeholder engagement. The IESBA will receive a further update at its September 2024 meeting.

4. Sustainability

UPDATE ON OUTREACH ACTIVITIES

The IESBA considered a report-back on outreach activities in Q1 and Q2 2024 relating to the Exposure Draft, [Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting](#) (Sustainability ED). The IESBA heard that the various outreaches, which included two global webinars, five in-person seminars and a series of other in-person and virtual meetings, reached over 7,000 participants and that the proposed IESSA has received overall positive support from stakeholders.

Outreach Events

The Q1 and Q2 in-person seminars were held in Brussels, Paris, Toronto, Tokyo, Singapore, and Australia (Sydney and Melbourne). The IESBA was informed that stakeholders:

- Expressed clear support for the profession-agnostic nature and other main design elements of the IESSA.
- Stressed the importance of coordination with the International Auditing and Assurance Standards Board (IAASB) to ensure interoperability between the two Boards' sustainability-related standards.
- Focused their queries largely on the proposed provisions relating to value chain entities (VCEs), including the application of the "knows or has reason to believe" principle and the operability of the proposed VCE-related provisions as well as the application of the IESSA to non-PAs.

Highlights of other comments and queries raised during the in-person outreach events included the following:

- Some stakeholders have suggested the need for transitional provisions and a post-implementation review (PIR) to assess the effectiveness of implementation of the new standards. There were also concerns about the possible fragmentation of standards and regulations between global and jurisdictional approaches as well as within jurisdictions.

- At the Brussels seminar, stakeholders expressed strong support for the IESSA to address group sustainability assurance engagements, while some highlighted perceived complexity in the related proposed provisions.
- Participants at the International Organization of Securities Commissions (IOSCO) Sustainable Finance Task Force and Committee 1 meetings reaffirmed that the IESBA standards will be key to the overall quality of corporate sustainability disclosures.
- Participants on the International Forum of Independent Audit Regulators (IFIAR) Standards Coordination Working Group and Plenary meetings emphasized the importance of the International Accreditation Forum's (IAF) commitment to adopt the IESSA and the associated practicalities of implementation.
- At the inaugural SAC meeting, SAC members expressed support for the IESSA's profession-agnostic approach and for the standards to be equivalent to the ethics and independence standards for audits. SAC members also provided feedback on how to address challenges jurisdictions might face in relation to adoption and capacity building.

Ms. Sramko also provided an update on coordination activities with the IAASB, including staff coordination meetings and a joint IAASB-IESBA Coordination Team meeting to be held in mid-July between the IESBA and IAASB Chairs, Task Force Chairs and lead project staff with a view to resolving the identified coordination matters, ahead of the two Boards' September 2024 meetings.

High-Level Update on Responses to Exposure Draft

Mss. Leal and Sramko provided a high-level overview of the key comments raised by respondents to the Sustainability ED based on a sample of comment letters, as well as a breakdown of the respondents by stakeholder group and region. They noted that the feedback from respondents to the ED was generally consistent with the feedback received from the outreach activities. Among other matters, there was broad support for the IESSA as a global baseline, and its key design elements. Respondents also emphasized the importance of close coordination with the IAASB. Further, some respondents raised concerns about implementation by non-PAs and the need to support effective implementation and capacity building, such as through the issuance of NAM. There were also concerns about the complexity and operability of the proposals relating to VCEs.

IESBA Participants' Comments

Among other matters, IESBA participants raised the following comments or questions:

- Non-PAs' understanding and effective implementation of the IESSA, as well as related oversight and enforcement, will be important to create a level playing field. In this regard, the IESBA's decision to include the IESSA as a separate Part of the Code will help increase understandability and accessibility.
- While some stakeholders within the accountancy profession have raised concerns about non-PAs' ability to understand and apply the IESSA, non-PAs have not raised the same concerns. The sophistication of many non-PA assurance practitioners needs to be recognized and appreciated in this regard.

- It is important to engage with less sophisticated stakeholders who might not have the capacity to provide feedback on the standards but will ultimately be affected by them.
- The Brussels seminar provided an opportunity to highlight the importance of, and wide stakeholder support for, the IESSA to representatives of the European Commission and the Committee of European Auditing Oversight Bodies (CEAOB).
- There was strong support in Japan for the profession-agnostic approach to the IESSA and from non-PAs for the IESSA. However, there was a concern about the length of the independence provisions addressing NAS. There was also a question regarding circumstances where a firm provides strategic sustainability advice to an entity and years later the entity becomes an audit client, and whether such a situation would create a self-review threat. It was also noted that Japan is expected to align to international standards for sustainability reporting, assurance, and ethics and independence.
- There was a request for a list of non-PA stakeholders who participated in the seminars and the comments received from those stakeholders.
- Mr. Ito noted the importance of providing a preliminary overview of the comments received and a breakdown of positive and negative feedback, to help the IESBA identify the key issues.

Ms. Dias thanked the Staff for the report-back and the IESBA members and other stakeholders who assisted with organizing the various outreach activities. She noted that importantly, the concerns raised by stakeholders were generally consistent across jurisdictions, which will assist the IESBA to focus on the specific issues to address.

IESBA-IAASB COORDINATION AND ED FEEDBACK UPDATE

The IESBA considered a high-level overview of key comments raised by respondents to the Sustainability ED in relation to the matters of coordination between the two Boards' respective Sustainability-related projects. The IESBA's discussion was informed by the Task Force's (TF) preliminary views as well as the IAASB's related proposals as presented by Ms. Josephine Jackson, IAASB Vice-Chair and Chair of the IAASB's Sustainability Task Force, Willie Botha, IAASB Program and Technical Director, and Dan Montgomery, IAASB Consultant.

Definitions of Sustainability Information and Sustainability Matters

Messrs. Botha and Montgomery presented the key comments received on the Exposure Draft, [Proposed International Standard on Sustainability Assurance \(ISSA\) 5000, General Requirements for Sustainability Assurance Engagements](#) (ED-5000), regarding the proposed definitions of "sustainability information" and "sustainability matters." They also recapped the IAASB discussion at the March 2024 meeting and explained the IAASB Task Force's proposal due to be presented at the June 2024 IAASB meeting.

Ms. Martin, Chair of Sustainability Work Stream 2 (WS2), presented the key comments from a sample of responses to the Sustainability ED regarding the proposed definition of "sustainability information" and WS2's draft proposal for the IESBA consideration.

The IESBA agreed that both Boards' standards should have the same terms and definitions where possible. The IESBA also supported further coordination with the IAASB at Task Force and Staff levels to develop a common core definition for the terms "sustainability information" and "sustainability matters" that is simple,

non-technical, and profession-agnostic. Each Board could then add separate application or explanatory material to those terms to address the specific needs of each Board's standards.

Group Sustainability Assurance Engagements

Mr. Montgomery presented the key feedback received on ED-5000 in relation to the approach to group sustainability assurance engagements and the IAASB's subsequent responses and proposals to address the comments. Mr. Babington, Workstream 1 (WS1) Chair, explained the alignment between the IAASB's proposals regarding group sustainability assurance engagements and the proposed provisions in Section 5405 in the Sustainability ED. In light of the recent proposed amendments to draft ISSA 5000, Mr. Babington asked whether IESBA members supported the IESSA to specifically address group sustainability assurance engagements, subject to the full analysis of the comments received on the ED.

Some IESBA members commented that the amendments to ED-5000 addressed some previous concerns regarding the alignment between the independence provisions in the IESSA and ISSA 5000. Accordingly, they were supportive of the direction, subject to consideration of the analysis of the feedback received from respondents to the ED.

An IESBA member suggested that WS1 consider potential ways to simplify the proposals in Section 5405 as he found the terminology and the language overly complex.

Determination of Components

Messrs. Montgomery and Babington presented the coordinated proposal for an aligned approach to the determination of a component for the purposes of the IESSA and ISSA 5000. Mr. Babington provided an overview of WS1's proposals regarding the determination of group components and value chain components and how this would result in a restructuring of the provisions in the Sustainability ED applicable to VCEs. Mr. Babington added that the purpose of the restructuring was to address the perceived complexity of the proposals concerning VCEs and that WS1 was not proposing any changes to the independence requirements at this stage, given that the full analysis of the feedback received on the ED had not yet been completed.

IESBA members supported aligning the definition of a component within the two sets of standards and WS1's proposal to simplify the provisions. IESBA members raised, among other matters, the following comments:

- There were a few questions regarding the term "operational control" and how sustainability assurance practitioners would apply that concept to determine value chain components. Some IESBA members believed that a consistent approach to operational control in the IESSA and ISSA 5000 would be essential to the consistent application of the relevant independence requirements. A few IESBA members and Mr. Siong asked the IAASB to provide examples of circumstances where a component from the value chain would be within the operational control of the reporting entity, and therefore, the sustainability assurance practitioner would need to treat such component as a group component.
- Given the nature of the relationship between a reporting entity and a VCE, a few IESBA members cautioned WS1 against proposing substantial changes to the proposed independence requirements in the ED as a result of the new determination of a component and the introduction of value chain components. Mr. Babington responded that WS1 did not believe that the proposed restructuring would result in more stringent requirements. However, he noted that WS1 would still need to consider

the comments received during the public consultation regarding the appropriateness of the proposed independence requirements in the ED.

Mr. Ito appreciated the coordination between the IAASB and IESBA regarding the determination of a component. He suggested that the IESBA also consider referring to the reporting boundary in its component definition. He also supported the proposed restructuring of the relevant sections to simplify the provisions applicable to VCEs. However, he believed that further amendments might be necessary to fully address the comments raised on the perceived complexity of the provisions.

Relevant Ethical Requirements and Quality Management

Mr. Botha presented the main comments received on ED-5000 regarding the proposed approach to specifying the baselines for the relevant ethical requirements and quality management and the meaning of the expression “at least as demanding” used in articulating those baselines.

IESBA members questioned the practical consequences of allowing firms to make their own determinations as to which ethical requirements are at least as demanding as the IESBA Code. The IAASB representatives agreed to look further into the matter.

Using the Work of Another Practitioner

Mr. Montgomery presented the IAASB’s approach and the proposed amendments to ED-5000 relating to using the work of another practitioner. He noted that the IAASB Sustainability Task Force proposed that the IAASB consider providing guidance when the sustainability assurance practitioner intends to use not only the assurance work but also the non-assurance work of another practitioner for the purposes of a sustainability assurance engagement. He noted that the IAASB and IESBA Sustainability Task Forces would engage in close coordination in developing the relevant ethical requirements applicable to such cases.

IESBA members noted the update and raised no comments or questions.

Scope of International Independence Standards (IIS) in Part 5

Mr. Babington informed the Board about IOSCO’s suggestions for extending the scope of the IIS in Part 5 to all sustainability assurance engagements where the sustainability information was required to be provided by law or regulation.

IESBA members considered the proposal and agreed that the Board needed to better understand the rationale for IOSCO’s proposal and the specific types of sustainability assurance engagements it believed the IIS in Part 5 should cover, instead of Part 4B. They raised, among other matters, the following comments regarding the proposal:

- A few IESBA members had concerns about extending the scope of the IIS in Part 5 to sustainability assurance engagements where the sustainability information was not developed in accordance with a general-purpose framework, especially if the sustainability information was prepared under entity-developed criteria. There was a view that the proposed criteria would capture a wide range of different sustainability assurance engagements that were unknown to the IESBA.
- A few IESBA members noted that the proposed scope in the ED was intended to capture sustainability assurance engagements that have the same level of public interest as audits of financial statements. They felt that extending the scope beyond sustainability information developed in

accordance with a general-purpose framework and requiring the application of the more stringent independence requirements to other sustainability assurance engagements would not be in line with the overarching objective of equivalence between audit and sustainability assurance engagements.

- IESBA members discussed whether sustainability information mandated by laws or regulations all have the same level of public interest. A few members argued that when laws or regulations require the disclosure of sustainability information, this would meet the public interest criterion irrespective of the applicable reporting framework. Others were of the view that national laws or regulations can require the disclosure of sustainability information for many reasons that are not necessarily all in the public interest. It was also noted that jurisdictions mandating the disclosure of sustainability information outside of the scope of IIS in Part 5 would have to option to require the application of the more stringent independence requirements if they deemed it necessary.
- It was also pointed out that the proposed amendment to the scope of the IIS in Part 5 would be a significant change from the ED. A few IESBA members raised that the application of the more stringent independence requirements to a broader scope of sustainability assurance engagements could create unintended consequences.

Mr. Siong agreed with the concerns raised regarding the potential consequences of extending the scope of the IIS in Part 5 without fully understanding the specific objectives of laws and regulations requiring the disclosure of sustainability information. He believed that the proposal from IOSCO could create an unreasonably broad scope for the application of more stringent independence requirements, potentially constraining the availability of sustainability assurance practitioners who could undertake sustainability assurance engagements.

Non-Assurance Services

Mr. Babington provided a high-level overview of the comments received on the ED regarding the proposed approach to NAS provided to a sustainability assurance client. He explained that based on the preliminary review of the comments, a substantial body of respondents supported the proposals in the ED. However, stakeholders raised some comments regarding the perceived complexity of the proposals and the appropriateness of including provisions addressing NAS in Part 5, which were developed for the purposes of audit engagements in Part 4A.

IESBA members supported retaining a consistent but tailored list of NAS in Part 5 to promote equivalence with Part 4A. However, a few IESBA members suggested that WS1 consider including further material and examples to clarify the relevance of the specific NAS to assurance of sustainability information.

Communication between Practitioners Regarding Non-Compliance with Laws and Regulations (NOCLAR)

Ms. Leal presented the key comments from a sample of comment letters from respondents to the ED regarding the proposals for the communication of NOCLAR between the sustainability assurance practitioner (SAP) and the auditor. Among other matters, Ms. Leal noted that respondents had mixed views about the proposed reciprocal requirements to consider communicating NOCLAR. While some supported strengthening them, i.e., to require communication of NOCLAR in all instances, others preferred converting them into application material. In response, Ms. Leal noted that WS2 proposes an approach mirroring extant paragraphs R360.31 to R360.33, i.e., introducing a requirement to communicate NOCLAR when the practitioners are from the same firm and retaining the proposed requirement to consider communicating NOCLAR when the practitioners are from the same network or from different firms or networks.

IESBA members were generally supportive of WS2's preliminary proposals. Among other matters, the following comments were raised:

- WS2's approach seemed balanced and catered to differences in the regulatory environment between sustainability assurance and audit.
- There is no reason to differentiate the requirements based on whether the practitioners belong to the same or different firms/networks. In response, Mr. Siong noted that the [NOCLAR Basis for Conclusions](#) explains the different approaches, clarifying that communication between practitioners in the same network or different firms/networks is more nuanced and complex than when they belong to the same firm.
- A suggestion to make communication of NOCLAR always a requirement except for certain instances.
- A suggestion for the Board to consider these suggestions from respondents when it undertakes the PIR for the sustainability-related standards in due course.

In addition, the IESBA supported WS2's preliminary proposals to develop new application material to address the risk of inconsistent reporting to management or TCWG, as well as inconsistent determination of whether to disclose the matter to an appropriate authority if the SAP and auditor are from different firms or networks.

Regarding the suggestion from a few respondents for the IESSA to also address NOCLAR in the value chain, the IESBA supported WS2's preliminary proposal not to directly address those situations but to retain the proposed application material that SAPs may follow the provisions in Section 5360 in case they encounter NOCLAR in the client's value chain.

PIOB OBSERVER'S REMARKS

Mr. Furusawa noted the different timelines for the finalization of the two Boards' standards. He emphasized the importance of ongoing close coordination between both Boards, including the coordination meeting in mid-July, and stressed that the September Board meetings will be crucial.

Regarding the definitions of sustainability information and sustainability matters, Mr. Furusawa supported the proposal for both Boards to share common core definitions and specific add-ons. He stressed the importance of the two Boards' Chairs being committed to achieving the common core definitions at the July 2024 IAASB-IESBA Coordination Team meeting.

Mr. Furusawa also suggested that the IAASB and IESBA coordinate closely regarding the terminology and guidance used in both sets of standards related to the involvement of the SAP in the assurance work of another practitioner.

Finally, Mr. Furusawa supported the general direction of the Task Force's preliminary proposals on NOCLAR.

WAY FORWARD

The IESBA will consider a full analysis of significant comments received on the Sustainability ED and the Task Force's proposed revisions to the ED at its September 2024 meeting.

5. Sustainability (EU Provisions Benchmarking)

Ms. Sramko presented IESBA Staff's preliminary observations from a staff-led benchmarking initiative focusing on the ethics and independence frameworks applicable to sustainability assurance in the EU legislation² and in the IESBA Code. Ms. Sramko provided a high-level comparison of the following key ethics and independence matters that were the subject of the benchmarking:

- Scope of the relevant EU laws and the proposed IESSA
- The profession-agnostic approach in the two frameworks
- Equivalence between the ethics and independence frameworks for audit and sustainability assurance
- Professional ethics
- Independence framework and threats to independence created by interests and relationships with a sustainability assurance client
- Provision of non-audit and non-assurance services to a sustainability assurance client
- Fees from a sustainability assurance client

Ms. Sramko explained that the purpose of the analysis was to provide the Board with an overview and a high-level comparison of the key ethics and independence matters covered in both frameworks. She added that the comparison was not intended to make a judgment about which framework is more stringent. She clarified that the analysis was a desk-based preliminary exercise and did not involve consultation with the EU or EU Member States.

Ms. Sramko suggested that the analysis could be used to demonstrate the interoperability and consistency of the IESSA with the EU framework and serve as a basis for further outreach to the European Commission (EC) and EU Member States.

IESBA members noted the observations and raised, among others, the following matters:

- How the EU framework addresses the value chain and the provision of non-audit services that are not specifically addressed in the legislation. Ms. Sramko clarified that the EU legislation provides an overarching independence framework with a threats and safeguards approach, with Member States obliged to transpose the framework into national law. Therefore, she explained that the absence of an explicit prohibition did not imply permissibility. She also added that the lack of explicit coverage of the value chain did not imply exclusion. There were a few questions on the specific gaps between the two frameworks and the areas where the proposed IESSA would be more stringent than the EU legislation. A few IESBA members questioned whether such differences could result in fragmentations between the two regimes.
- The high-level comparison between the EU framework and the IESSA did not provide a balanced picture of the status of the ethics and independence framework for sustainability assurance in the EU due to the EU framework's general nature and necessity for Member States' implementation. A few

² The benchmarking focused on the following EU legislation:

- 2022/2464/EU Directive on corporate sustainability reporting (CSRD)
- 2006/43/EC Directive, amended by CSRD
- 537/2014/EU Regulation, amended by CSRD

IESBA members also believed that the benchmarking should consider the transposition of the EU framework into the Member States' national laws, or at least whether the national laws include additional provisions.

Ms. Dias underlined the importance of the benchmark exercise in promoting the adoption and implementation of the IESSA and engaging with the EU and other jurisdictions.

WAY FORWARD

The IESBA acknowledged the benefit of benchmarking and its potential value and utility in future consultations with the EC and EU Member States in relation to the adoption and implementation of the IESSA in that region. Therefore, the Board asked the Staff to obtain further information on the transposition of the relevant EU legislation into the national laws.

6. Technology

Mr. Clark, Chair of the Technology Working Group (TWG), provided an update on the TWG's activities, including highlights of the meetings held with the Technology Experts Group (TEG) since March 2024.

Ms. Viljoen reported on the technology discussions at the April 2024 IESBA-IESBA SAC and May 2024 IESBA-NSS meetings. She also gave a summary of the IAASB's Technology Statement, which will be discussed at its June 2024 meeting.

IESBA members encouraged ongoing collaboration between the two Boards to ensure that PAs demonstrate the knowledge and skills, as well as adherence to ethical principles, when dealing with complex technology matters.

EDUCATIONAL SESSION

Mr. Clark introduced Mr. Jay Schulman, National Leader for Blockchain and Digital Assets at RMS US LLP, who gave an educational session explaining blockchain and artificial intelligence (AI), and how they could threaten independence.

Mr. Clark also introduced Mr. William Gee, PwC Hong Kong's Risk Assurance Senior Advisor for Innovation and Digitalization, who shared his insights on blockchain technology developments and adoption, and the changing regulatory environment.

After the presentations, Ms. Viljoen facilitated a panel discussion between Messrs. Gee and Schulman, delving deeper into some of the points raised during their presentations.

IESBA members thanked Messrs. Gee and Schulman for their insightful presentations, and made the following observations:

- The profession should work together, leveraging existing resources and skills to be proactive and adaptable in the midst of technological advancements, while maintaining its integrity and ensuring quality.
- The IESBA Code should not be compromised to accommodate adoption of new technologies such as blockchain. PAs should be aware of the potential threats or risks, such as self-review and assuming management responsibility, that might come from having multiple roles in the blockchain ecosystem, including through, for example, providing hosting services.

Ms. Dias thanked Messrs. Schulman and Gee for their informative presentations.

PIOB OBSERVER'S REMARKS

Mr. Furusawa expressed his appreciation for the presentations. He agreed with the importance of independence and suggested that it should be considered in a more holistic way. He also emphasized the need to coordinate and be agile in adapting to the changing technological environment.

WAY FORWARD

The Working Group will provide further updates to the Board in due course.

7. Using the Work of an External Expert

Ms. Endsley, Chair of the Using the Work of an External Expert Task Force, provided an overview of the Task Force's outreach activities since the release of the ED. She then recapped the proposed provisions set out in the ED, including:

- New definitions of "expert" and "expertise," and a revised definition of "external expert."
- New requirements to guide a PA's evaluation of whether an external expert is competent, capable, and objective (CCO), including a prohibition on using the work of an external expert if it is determined that such expert is not competent, capable or objective.
- Additional requirements focused on evaluating an external expert's objectivity in an audit or other assurance engagements.
- Specific guidance regarding identifying, evaluating, and addressing the potential threats to compliance with the fundamental principles when a PA is using the work of an external expert.

Ms. Leung presented an overview of the preliminary key themes from respondents' comment letters. She reported that while stakeholders were generally supportive of the proposed provisions, some topics would require the Task Force's further attention. These topics primarily relate to the consistency of definitions between the ED and IAASB's standards, the approach to evaluating and concluding on an external expert's CCO, and implementation considerations.

Ms. Leung also provided a report-back on the outreach feedback from the perspectives of investors/users, preparers, and regulators. Investor feedback indicated general support for the proposals, with a few investors suggesting that there should be transparency through disclosure in the audit or assurance report about the use of an external expert. Feedback from preparers stressed that the evaluation of an external expert's CCO should be continuous. Mr. Siong and Ms. Leung further shared that a few regulators had highlighted a potential risk of increased pressure on a firm to accept the work of an external expert if the evaluation of CCO is conducted at the same time as the external expert is performing their work. The feedback indicated a concern that such pressure might increase if the evaluation of CCO is concluded closer to the time of completion of the external expert's work. This is because of the time and cost already spent by the external expert, as well as any deadlines that might need to be met.

Among other matters, IESBA participants raised the following comments:

- The importance of consistency in the definition of "expertise" between the IESBA and IAASB standards. A participant also felt that there could be more clarity as to the distinction between "another practitioner" and an "external expert" used in a sustainability assurance engagement.

- What respondents' primary concerns were in relation to the approach to evaluating an external expert's CCO. Ms. Endsley indicated that they related to:
 - The perceived complexity of the proposed additional objectivity requirements for external experts used in an audit or other assurance engagement – for example, whether it would be overly onerous and impractical to require objectivity from an external expert's immediate family members.
 - The prohibition from using the work of an external expert if they are deemed not to be competent, capable or objective, as it would appear to encroach on the remit of the IAASB's performance standards, given that ISA 620³ is silent on this point.

In this regard, Ms. Endsley stressed that the Task Force's view is that ensuring the competence, capability and objectivity of an external expert is part of a PA's responsibility to comply with the fundamental principles when performing professional services or activities. However, the Task Force also acknowledged the concerns and would, in coordination with the IAASB staff, address the concerns to ensure interoperability between the IESBA and IAASB standards. An IESBA participant also suggested explaining in the Basis for Conclusions the rationale and necessity for these ethical provisions.

- The extension of the proposed new section 5390 in Part 5 of the Code for sustainability assurance to non-PAs. An IESBA participant noted that this concern is a wider issue for the IESBA to consider, especially in relation to Part 5 which is profession-agnostic by design.
- It was observed that respondents who expressed disagreement with the prohibition on using the work of an external expert who is not competent, capable or objective all represent accounting firms and professional accountancy organizations. It was questioned how the Task Force would balance the feedback from the different stakeholder groups.

Ms. Endsley responded that that all stakeholder feedback will be considered during the Task Force's analysis of the comment letters as well as feedback from the outreach. The Public Interest Framework requires weighing and balancing all stakeholder views, with a focus on the protection of the interests of users and investors.

- Whether safeguards would apply when an external expert is not competent, capable or objective, notwithstanding the ED position that introducing transparency as a mitigating action against threats to the expert's objectivity could create an "easy out" and shift the burden and responsibility to evaluate the external expert's objectivity from the PA to stakeholders.

Ms. Endsley explained that the Task Force will be revisiting the provisions relating to the evaluation of the external expert's CCO to (i) clarify whether safeguards can be applied when the external expert is not competent, capable or objective, (ii) whether additional application material can provide guidance on how professional judgment might impact the evaluation, and (iii) whether there would be merit in providing transitional provisions to address the scarcity of external experts that are CCO in some jurisdictions or emerging fields during the initial implementation phase.

³ ISA 620, *Using the Work of an Auditor's Expert*

- An emphasis that the evaluation of CCO should be continuous, so that the PA does not prematurely conclude that the external expert is or is not CCO without considering safeguards or any changes in facts or circumstances.

PIOB OBSERVER'S REMARKS

Mr. Furusawa noted the preliminary feedback and themes and initial Board discussion. In relation to the stakeholder concerns regarding whether external experts might be able to provide the information as required in the proposals, he suggested that further outreach with experts might assist to provide insight into the concerns.

WAY FORWARD

The IESBA will receive a full analysis of the respondents' comments on the ED and the Task Force's proposed revisions to the ED at its September 2024 meeting.

8. Sustainability (Adoption and Implementation and Capacity Building)

Ms. Dias and Mr. Reid updated the IESBA on recent activities relating to adoption and implementation (A&I) and capacity building for the sustainability-related final standards, including outreach to the International Sustainability Standards Board (ISSB) and the UN Trade and Development (UNCTAD) (ISAR, Africa, and Latin America), and coordination with International Accreditation Forum (IAF) and the Get It Fair (GIF) Program.

Among other matters, IESBA participants raised the following comments on A&I:

- There was support for wider engagement and utilizing successful methods adopted by others. It was suggested that the IESBA consider using the ISSB's approach of focusing its resources on A&I support following the release of its sustainability standards, and reducing the pace of its standard setting work. This approach has been hugely effective and beneficial to global adoption of the ISSB's standards.
- While the IESBA does not have the same level of financial and human resources and network partnerships as the ISSB, it can learn from the ISSB's approach to facilitating convergence of a number of different reporting frameworks to a single solution. The IESSA is also a single, global framework, which will assist jurisdictions to reduce "greenwashing," thereby facilitating promotion of the standards. There might also be opportunities to leverage the ISSB's and UNCTAD's efforts and emphasize that the IESSA supports all reporting and assurance frameworks and is not an additional burden.
- The strategic partnership with the IAF is an important opportunity for the IESBA to use the IAF's wide network as a first run on how to implement the IESSA. That experience could then be leveraged with respect to other stakeholders. This may also persuade jurisdictions that have not yet adopted the Code of the benefit of having a clear and consistent baseline. However, caution was raised about the time required for national accreditation bodies and conformity assessment bodies to secure copyright agreements from IFAC. In this regard, Mr. Gunn noted that IESBA and IAASB staff are working directly with IFAC staff on copyright matters.
- Adoption must be treated as the priority as the number of jurisdictions adopting the IESSA is the real test of success. In this regard, the IESBA should engage with those with legal power to decide on

adoption of the IESSA such as legislators and regulators, focusing on a smaller number of key jurisdictions and a one-on-one advocacy approach to maximize effectiveness. It is also important to keep fostering partnerships with IOSCO, IAF, ISSB and IAASB as advocacy from these bodies may generate momentum for the adoption of the IESSA. Some also queried if the IESBA should prioritize its focus on the ISSB and IOSCO due to the natural alliance with these bodies or on the IESBA-NSS liaison group as they will likely adopt the IESSA.

With regard to capacity building, IESBA participants raised the following comments, among others:

- The effectiveness of A&I could be increased by linking capacity building to a commitment to adopt, and charting jurisdictional adoption to stimulate others to adopt. There was a suggestion to develop adoption targets (e.g., adoption of ISSB standards by around 20 countries constituting about 50% of the world's GDP).
- Capacity building is a necessary part of the standard-setting process and there is a huge opportunity to expand knowledge of the IESBA and the IESSA among regulators and other stakeholders. The Brazilian initiative as an early adopter of the ISSB standards was considered, which involved a large working group, including academics who translated educational material, resulting in minimal cost.
- It may be helpful to have separate implementation guides for PAs (focusing on new material in the IESSA, which might be developed in collaboration with the NSS) and non-PAs (which would be more comprehensive and leverage the work with the IAF).
- The IESBA should consider learnings from past A&I efforts and focus time and resources on material that will have enduring utility, such as storytelling, case studies, and analysis demonstrating the IESSA's implementability.
- The IESBA may consider developing a "train the trainers" program, which is also an important element in relation to developing guidance materials as it elicits implementation questions that might need to be addressed.
- Other suggestions raised included case studies on interpretation of principles, webinars that can be reused and repurposed, FAQs based on questions from Board meetings or outreach, and podcasts on specific topics. There was a caution that while online content is important, such material should complement other approaches and might be costly to develop in a creative and engaging way.
- One of the biggest initial barriers to capacity building is translation. There is also a need to prioritize material that stakeholders require first (e.g., independence and the value chain).

Ms. Dias thanked IESBA participants for their engagement and highlighted the following matters:

- The IESBA must make strategic decisions to prioritize A&I and capacity building by assessing resources required against the workplan for 2025 and 2026.
- Engagement with regulators and decision makers and strategic partnerships will be essential.
- The cooperation of Board members will be critical to the success of A&I and capacity building with respect to the forthcoming sustainability-related final standards.

PIOB OBSERVER'S REMARKS

Mr. Furusawa referred to the diagram depicting the global sustainability standards infrastructure consisting of sustainability reporting, assurance, and ethics and independence standards, and suggested that this could be communicated as an overarching message and delivered together with the IAASB and ISSB.

WAY FORWARD

The IESBA agreed to establish a working group to develop a strategic approach to supporting A&I and capacity building for the IESSA. IESBA participants were requested to indicate their interest out of session to join the working group, with the Board informed of the composition of the Working Group in due course.

9. Emerging Issues and Outreach Committee (EIOC)

Ms. Borgerth, Chair of the EIOC, provided an update on the EIOC's activities. Ms. Viljoen gave an overview of the revised terms of reference for the EIOC, emphasizing that the objectives continue to be overseeing the activities done in accordance with the IESBA's Statement of Working Processes and reporting emerging issues and reflections on the approach to outreach to the IESBA, as needed.

The IESBA considered and approved the updated terms of reference as presented.

EDUCATIONAL SESSION

Ms. Borgerth introduced Ms. Anna Dourdourekas, Chair of the Professional Ethics Executive Committee (PEEC) of the American Institute of Certified Public Accountants (AICPA), who explained the PEEC's activities pertaining to private equity investment in accounting firms and the related impact on ethics and independence for the firms.

IESBA members thanked Ms. Anna Dourdourekas for her insightful presentation, and made the following observations:

- Firms are required to have strong controls to regularly monitor independence, especially when private equity firms are involved because investment structures set up by private equity can change quickly.
- Transparency as to who owns and controls alternative practice structures is important in assessing auditor independence. Firms should uphold their independence and quality practices, regardless of the participation of private equity firms.
- Discussions should continue to address various complex issues associated with private equity investments, such as conflicts of interest that may arise when partners who perform attest services also have ownership interests in non-attest entities.
- There should be consideration of the implications of having a private equity firm as a minority owner of a non-attest entity affiliated with an attest firm. Ms. Dourdourekas highlighted the PEEC's preliminary conclusions on the matter and shared that the audit firm would be required to apply the conceptual framework to evaluate relevant relationships.
- There was support for the Firm Culture and Governance Working Group to consider how these types of structures might affect the culture within firms.
- The trend towards private equity investments in firms is not unique to the United States, with similar developments reported in other jurisdictions.

Ms. Dias thanked Ms. Dourdourekas for her informative presentation.

10. Tax Planning and Related Services Rollout

The IESBA considered a brief update on the outreach activities conducted by its Tax Planning and Related Services Rollout Working Group since the launch of the final pronouncement in mid-April 2024, following the PIOB's certification of the pronouncement. The IESBA noted that the outreach initiatives have been comprehensive, including two global webinars, several in-person presentations in Canada, Japan and Australia, and top-tier media interviews.

WAY FORWARD

As part of the rollout initiatives, the IESBA will receive an update on the development of the IESBA Staff Q&As on the final pronouncement in due course.

11. PIOB Observer's Remarks

Mr. Furusawa expressed confidence that the Board would successfully navigate the challenges ahead, demonstrating the IESBA's contribution to the global capital markets and the public interest. He extended his gratitude for the opportunity to observe the meeting and wished the Board success at its next meeting in September.

12. Closing Remarks

Ms. Dias thanked Mr. Furusawa for his thoughtful observations and guidance. Despite this Board meeting not being a decision-making one, she praised the Board on the discussions, which laid essential groundwork for critical decisions at the upcoming September and December 2024 Board meetings, particularly on the Firm Culture and Governance work stream.

Ms. Dias highlighted the productive discussions on Sustainability and Experts earlier in the week. She emphasized the need for a full analysis of the responses to the Sustainability and Experts EDs and to build upon the stakeholder feedback received. She also highlighted that the focus on adoption and implementation of the standards would be critical in advancing the standards in the coming years.

Regarding the composition of the new A&I Working Group, Ms. Dias indicated that she would further evaluate the expressions of interest received from Board members and Technical Advisors, and after consultation with the Planning Committee, will update the Board on the final composition in due course.

In closing, Ms. Dias thanked all the Board participants for their constructive contributions. She extended special thanks to IESBA staff for their dedication and the seamless execution of the meeting. Finally, Ms. Dias acknowledged and thanked IFAC for all its assistance and operational support.

13. Next Meeting

The next in-person Board meeting is scheduled for September 16-20, 2024, in New York, USA.