

**DRAFT BASIS FOR CONCLUSIONS:
INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY
ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE
STANDARDS) AND OTHER REVISIONS TO THE CODE RELATING TO
SUSTAINABILITY ASSURANCE AND REPORTING**

I. Introduction

1. At its December 2024 meeting, the IESBA **approved** the *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting* with the affirmative votes of xx IESBA members present.
2. This Basis for Conclusions is prepared by IESBA Staff and explains how the IESBA has addressed the most significant matters raised on exposure. It relates to, but does not form part of, the IEISSA and other revisions to the Code.

II. Background

Sustainability Reporting Ecosystem

3. In recent years, there has been a sharp rise in demand for sustainability information such as in relation to environmental, social and governance (ESG) matters. Such information is increasingly used to support not only capital allocation by investors, but also other decisions by customers, employees, government agencies and other stakeholders. As demand for sustainability information continues to expand rapidly, there is a pressing public interest need to ensure that such information is trustworthy and comparable, and therefore capable of being subject to assurance. Governments and regulators in a number of major jurisdictions have also prioritized the development of new legislation and regulations governing sustainability reporting and assurance.
4. In response to these rapid developments, the IESBA [publicly committed](#) to developing, as a new strategic priority, global ethics (including independence) standards as part of the regulatory infrastructure that supports transparent, relevant and trustworthy sustainability reporting. The IESBA began its information gathering in early 2022, including actively engaging in outreach to collect views and insights from a wide range of stakeholders. To highlight the relevance of the extant Code in addressing ethics issues relating to “greenwashing,” the IESBA released in October 2022 a Staff publication highlighting the relevance and applicability of the Code in combatting greenwashing.
5. In September 2022, the International Organization of Securities Commissions (IOSCO) publicly recognized the work of both the IESBA and the International Auditing and Assurance Standards Board (IAASB) as important in meeting the need for robust standards applicable to all practitioners of sustainability assurance to foster independent, high-quality engagements and consistent practices.¹ In particular, IOSCO welcomed the two Boards’ plans to develop high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support limited and reasonable assurance of sustainability information. In addition, in its final report *Supervisory and Regulatory Approaches to Climate-related Risks*, the Financial Stability Board (FSB) also singled out the work of the IESBA and IAASB as relevant to the development of third-party assurance of climate-related public disclosures by corporates.²

¹ In September 2022, IOSCO issued a [statement of support](#) for the work of the IESBA and IAASB to develop profession-agnostic global standards to support assurance of sustainability information.

² In its [2023 Progress Report on Climate-Related Disclosures](#), the FSB continued to highlight the need for a global assurance, ethics and independence framework for sustainability disclosures and expressed support for both Boards’ standard-setting work in this regard.

Sustainability Project

6. In December 2022, the IESBA approved two related project proposals. With respect to sustainability reporting and assurance, the IESBA approved a [project proposal](#) with the objectives to develop:
 - (a) Revisions to the Code³ to address the ethics issues that might arise in sustainability reporting; and
 - (b) Ethics and independence standards for use and implementation by all sustainability assurance practitioners (i.e., professional accountants (PAs) and other practitioners performing sustainability assurance engagements).
7. In the same December 2022 meeting, the IESBA also approved a [project proposal](#) relating to the use of experts by PAs as well as all sustainability assurance practitioners (SAPs). For more information about the IESBA's Use of Experts project, please visit its [webpage](#).

Exposure Draft

8. In January 2024, the IESBA released 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](#) (ED) with the comment period closing on May 10, 2024.
9. In respect of the IESSA, as stated in the [Explanatory Memorandum](#) (EM) to the ED, the IESBA proposed, among other matters, to develop global ethics (including independence) standards:
 - Equivalent to the same high standards of ethical behavior and independence that apply to audits of financial statements.
 - Capable of being understood and applied by all practitioners of sustainability assurance engagements, including those who are not PAs (profession-agnostic).
 - In a way that they can underpin any reporting or assurance framework used to prepare or assure the sustainability information (framework-neutral).
10. In respect of the sustainability reporting-related revisions to Parts 1 to 3 of the extant Code, as stated in the EM, the IESBA proposed, among other matters, to:
 - Develop framework-neutral revisions, consistent with the approach in the extant Code, that are suitable irrespective of the underlying framework⁴ used to prepare the sustainability information.
 - Include sustainability references where applicable and revise existing examples and add new sustainability reporting examples relating to misleading conduct, value chain considerations and forward-looking information.
 - Revise Section 220⁵ to ensure it remains fit for purpose for sustainability information.

³ For purposes of this Basis for Conclusions, the reference to the extant Code is to the 2024 edition of the IESBA Handbook, which includes the most recent IESBA-approved revisions.

⁴ Such as the International Sustainability Standards Board (ISSB) IFRS Sustainability Disclosure Standards, the Global Reporting Initiative (GRI) standards, the EFRAG European Sustainability Reporting Standards (ESRS), and the International Integrated Reporting Framework

⁵ Section 220, *Preparation and Presentation of Information*

11. [Eighty-nine comment letters](#) were received from respondents across a wide range of stakeholder groups, including two [Monitoring Group](#)⁶ (MG) members,⁷ other regulators, national standard setters (NSS), professional accountancy bodies (PAOs), other professional bodies, accounting firms, and members of the non-PA assurance practitioner community.
12. The IESBA revised its proposals to address the significant matters raised by respondents to the ED, taking into account the input provided by the [Stakeholder Advisory Council](#) (SAC).
13. To formulate its views, the IESBA has also conducted an extensive outreach program with a wide range of stakeholders, including a series of global roundtables, targeted outreach, seminars, webinars, panel discussions and presentations at global, regional and local conferences. In addition, the IESBA has engaged regularly with sustainability reporting and assurance experts through its [Sustainability Reference Group](#).
14. This Basis for Conclusions explains how the IESBA has addressed the most significant matters raised on exposure.

15. Following deliberation of the respondents' comments and suggestions, the IESBA determined to make the following key revisions to the ED to, among other matters:
 - Fully align definitions with the IAASB's International Standard on Sustainability Assurance 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA 5000) whenever the IESBA and the IAASB are using the same terms.
 - Align the approach with the extant Code regarding communication of non-compliance with laws and regulations (NOCLAR) by the SAP to the auditor and vice-versa.
 - Provide a coordinated approach with the IAASB regarding the determination of groups for the purposes of group sustainability assurance engagements (group SAEs), including the determination of group components and value chain components (VCCs).
 - Develop new guidance regarding the meaning of "performing assurance work at" for the purposes of the International Independence Standards (IIS) in Part 5
 - Restructure and simplify the independence provisions in the ED applicable to assurance work performed at, or with respect to, a value chain entity, merging those provisions into Sections 5405 and 5406 under separate subsections.
 - Delete Section 5700 of the ED, which required the sustainability assurance team to apply the "knows or has reason to believe" principle to assess independence when the firm intends to use the work of a SAP performed at a value chain entity.
 - Clarify the process for confirmation of the independence of another practitioner (who is not a member of the engagement team but whose assurance work the firm intends to use) in accordance with Part 5.
 - Provide new guidance addressing changes in VCCs and changes in component practitioners performing assurance work at a VCC.

⁶ The MG is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit-related standard-setting and audit quality.

⁷ International Organization of Securities Commissions (IOSCO) and International Forum of Independent Audit Regulators (IFIAR).

- Set out relevant ethical requirements applicable when the firm intends to use the non-assurance work performed by another practitioner for the purposes of the SAE.
- Provide further guidance, including examples in relation to specific non-assurance services (NAS) in the subsections, to clarify the relevance and impact of such services on sustainability information from an independence perspective.
- Clarify that the fee for a SAE within the scope of the IIS in Part 5 does not impact the level of threats to independence created by the proportion of fees for services other than audit to the audit fee.
- Provide clear and operable transitional provisions which support the ambitious timetables for sustainability reporting and assurance in a number of jurisdictions.

Coordination with IAASB

16. In developing the revisions and responding to respondents' comments on the ED, the IESBA engaged closely with the IAASB to ensure that its proposals are consistent and interoperable with ISSA 5000. Respondents to the IESBA ED and IAASB's exposure draft (ED-5000) highlighted the importance of coordination between the two Boards on key concepts and terminology as well as certain specific matters such as using the work of another practitioner, group SAEs, and the concept of the value chain.
17. Both Boards were fully committed to alignment on the identified coordination matters, and ongoing coordination among the respective Task Forces and staff of the Boards took place throughout the Boards' respective projects. This included a meeting in July 2024 of the Chairs, Task Force Chairs, project team leaders and senior staff of the Boards to discuss the status of the coordination matters and any further actions needed to achieve alignment. The status of the identified coordination matters was also discussed during a joint plenary session of the two Boards in September 2024, where there was concurrence on the coordinated positions reached on those matters and emphasis on the importance of ongoing coordination as IESBA continued its work to finalize its standards.
18. The IAASB approved ISSA 5000 at its September 2024 meeting. ISSA 5000 was subsequently certified by the PIOB on November 12, 2024.

Public Interest Framework

19. In developing the ED and finalizing the provisions, the IESBA leveraged the Public Interest Framework (PIF)⁸ to guide the public interest responsiveness of the standards. The qualitative standard-setting characteristics that were at the forefront, or of most relevance, in developing the IESBA standards for sustainability reporting and assurance include:
 - *Coherence* with the overall body of the IESBA's standards, recognizing that the extant Code already encapsulates a robust set of standards that sets expectations for, and guides, ethical

⁸ See the PIF published by the Monitoring Group in July 2020 (as part of its report "[Strengthening the International Audit and Ethics Standard-Setting System](#)"). The PIF sets out a framework for the development of high-quality international standards by the IESBA that are responsive to the public interest. Among other matters, the PIF explains for whom standards are developed, what interests need to be served and what characteristics standards should exhibit.

behavior with respect to the provision of professional services by PAs that were largely used, in respect of the standards for sustainability assurance, in Part 5.

- *Scalability*, including the proportionality of the relative impact of the standards on different stakeholders, by including requirements that can be applied to all entities, regardless of size and complexity (i.e., addressing both less and more complex circumstances commensurate with the nature and circumstances of the entity). Some of the IESBA's choices and decisions in the IESSA also recognize the advantages of a phased approach in time, allowing for the review of certain topics (for instance, the regime for NOCLAR) in due course.
 - *Timeliness* of the IESBA's timely standard-setting action to address identified needs without sacrificing quality.
 - *Relevance* of the standards, which focus on responding to emerging issues, evolving stakeholder needs, and perceptions and changes in business environments relating to sustainability reporting and assurance thereon; and, for sustainability assurance engagements, developing principles-based requirements that enable the objectives of those requirements to be achieved in differing circumstances (i.e., in the context of external reporting that provides information about the impacts of sustainability matters on the entity and the entity's actual or potential impacts, positive or negative, on the environment, society or economy).
 - *Comprehensiveness*, by developing standards that can apply to both sustainability reporting and assurance, and covering any sustainability matters.
 - *Clarity and conciseness* of the standards by using the Code's structure and drafting conventions for clarity, understandability, and usability. Regarding the standards for sustainability assurance, the IESSA follows the same building blocks approach in the extant Code – i.e., starting with the fundamental principles and the conceptual framework as the foundations of the new ethics (including independence) standards for sustainability assurance.
 - *Implementability and enforceability*, by following the structure of the extant Code, with a clear distinction between requirements and application material. Regarding the standards for sustainability assurance, making the IESSA part of the Code is intended to avoid the issue raised by some stakeholders about the lengthy legal process of adopting a new standalone standard or Code in some jurisdictions.
20. The IESBA believes it has adequately addressed the regulatory call regarding ethics (including independence) standards for sustainability assurance and that the final pronouncement meets the needs of all SAPs regardless of their backgrounds, and preparers of sustainability disclosures.

III. Sustainability Assurance

Main Objectives of IESSA

21. Recognizing the public interest in sustainability information prepared in accordance with a general purpose framework and required to be provided in accordance with law or regulation or publicly disclosed, the IESBA holds to the premise that sustainability assurance engagements on such information must be underpinned by the same high standards of ethical behavior and independence that apply to audits of financial statements. With that in mind, the IESBA developed the IESSA to mirror and be equivalent to Parts 1 to 4A of the Code, with certain, limited, exceptions.

22. The provisions in the IESSA are drafted using the same language as for the ethics (including independence) provisions that apply to audits of financial statements, with terminologies amended only where necessary to be clear as to the application of the provisions with respect to sustainability.
23. Following a [statement of support](#) from IOSCO, the IESSA includes a set of profession-agnostic global ethics (including independence) standards that are meant to be understood and applied by all practitioners of sustainability assurance engagements, including non-PAs. Part 5 was also developed in a framework-neutral way so that the ethics (including independence) standards can underpin any reporting or assurance framework used to prepare or assure the sustainability information.
24. A substantial body of respondents agreed that Part 5 achieved those three characteristics, i.e.,
 - (a) Equivalence to the ethics (including independence) standards for audits;
 - (b) Profession-agnostic; and
 - (c) Framework-neutral.

Definition of Sustainability Information

25. The IESBA agreed to include a proposed definition for a new term, “sustainability information,” in the Glossary to the Code. The IESBA considered it necessary to determine what type of information is the subject of a sustainability assurance engagement and therefore relevant for the purposes of applying the IESSA, as well as the subject of the ethics standards in Parts 1 to 3 of the extant Code regarding sustainability reporting.
26. The IESBA was of the view that without a definition for the new term, there is a risk that the IESBA standards would be inconsistently applied due to potentially arbitrary, misconstrued or too narrow interpretations of the term. Having a definition serves a clarifying and educational purpose, thus contributing to the clarity, implementability and enforceability of the IESBA standards as required by the PIF.
27. The proposed definition in the ED was intentionally broad to be perennial and interoperable with different reporting and assurance standards. The proposed definition also included a non-exhaustive list of what may be considered as sustainability information (as examples), recognizing the specificities of sustainability information.
28. In developing its own definition, the IESBA acknowledged that other recognized standard setters had developed or were developing their own definitions of “sustainability information,” including the IAASB. In this regard, the IESBA recognized that ED-5000 used two terms, “sustainability information” and “sustainability matters.”

ED Comments

29. While a substantial body of ED respondents supported the IESBA’s proposed definition of “sustainability information,” they also called for a more coordinated approach with the IAASB, especially when both proposed standards used the same terms.

IESBA Decisions

30. Recognizing the importance of interoperability between the IESSA and ISSA 5000, and following extensive coordination, the IESBA and the IAASB agreed to use the terms “sustainability information” and “sustainability matters” in their respective standards. The two Boards also agreed to share the

same common core definitions for both terms. As a result, the IESBA and IAASB are fully aligned on these definitions.

31. For both Boards, the common core for “sustainability information” is “information about sustainability matters.”
32. The common core definition of “sustainability matters:”
 - Points to the principal role of legal or regulatory, or voluntary reporting frameworks in defining or describing the sustainability matters/topics that should be reported since it is not for the assurance or ethics frameworks to define “sustainability information” or “sustainability matters” in a substantive way.
 - Mentions the widely recognized environmental, social and governance (ESG) topics while also allowing for the existence of “other” sustainability-related topics. The reference to “other” topics recognizes the evolution of the sustainability area and ensures that the IESBA/IAASB definition stays evergreen.
33. In addition, both Boards also agreed to add specific elements to the two terms, if and as necessary, to cater to the needs of their respective standards. In this regard, the IESBA determined to include the description proposed in the ED, elaborating on some of the characteristics of sustainability information. The IESBA considered this elaboration helpful in order for the users of the Code to better understand the type of information that may be treated as sustainability information.

Scope of the IESSA

Scope of the Ethics Standards in IESSA

34. The IESBA proposed to develop ethics standards for all SAEs as well as any other services that the practitioner provides to the same sustainability assurance client.
35. The IESBA considered this to be a balanced approach, having regard to the public interest considerations at hand. Sustainability information disclosed by entities is used by a wide range of stakeholders to assess and compare the entities’ performance and to make investment, business or other decisions. Given the level of public reliance placed on those disclosures, those performing the SAEs should follow stringent ethics requirements. However, adhering to high standards of ethical behavior only when performing the SAE for the client might not sufficiently safeguard stakeholder confidence and the public interest at large. The IESBA, therefore, believed that it would be important to hold the practitioner to the same high ethics standards with respect to any other professional services they might provide to the same client. The IESBA agreed that extending the scope of the ethics standards in Part 5 to cover all activities and services provided by SAPs to all their clients would be too broad.
36. The ED also included an encouragement for SAPs who are not PAs to apply Parts 1 to 4B of the Code in all situations not covered by Part 5.

ED Comments

37. A substantial body of respondents supported the ED proposal. Some respondents supported a narrower or broader scope for the ethics standards in the IESSA.

38. Some respondents considered that the encouragement proposed in paragraph 5100.2b(b) for SAPs who are not PAs to apply Parts 1 to 4B of the Code was insufficient. They were of the view that Part 4B of the Code should also be mandatory for SAPs who are not PAs to ensure a level playing field among all those providing sustainability assurance services.
39. A few respondents pointed out the existence of other codes of practice regulating the behavior of SAPs who are not PAs, such as lawyers, and the need to ensure that the IESSA does not contradict those codes.

IESBA Decisions

40. Given the substantial support from ED respondents, the IESBA determined to retain the scope proposed in the ED for the ethics provisions in the IESSA. This means that in Part 5, the ethics standards have a wider scope than the IIS and therefore can apply to SAEs that would not be subject to the IIS in Part 5.
41. With regards to the suggestion that SAPs who are not PAs should be required to apply Part 4B to the SAEs that are not covered by the IIS in Part 5, the IESBA is of the view that it would be premature to make the requirements in Part 4B also applicable to non-PAs. The IESBA already has plans under its SWP 2024-2027⁹ to commence a new work stream to consider how the Code should be enhanced, whether through revision of extant Part 4B or the development of a Part 4B-equivalent in the new Part 5, to ensure that all independence standards for SAEs are addressed in the Code in a profession-agnostic manner. Until then, the application of Part 4B remains optional for non-PAs unless jurisdictional regulators decide to require it for both PAs and non-PAs.
42. The IESBA also agreed to include a new provision in the introductory part of the IESSA (paragraph [TBC after final approval]) acknowledging that other professional and ethics standards might also apply to SAPs who are not PAs by virtue of their profession or professional affiliation (e.g., lawyers or engineers). That provision makes it clear that, in such circumstances, both the Code and those other professional and ethics standards apply to the SAP.

Scope of the Independence Standards in IESSA

43. The IESBA proposed that the independence standards in Part 5 focus on SAEs with the same level of public interest as audits of financial statements. The criteria determined for such engagements were set out in paragraph 5400.3a of the ED.
44. For other SAEs that are not covered by the IIS in Part 5, the IIS in Part 4B already set out the applicable independence requirements. Although Part 4B is currently applicable to PAs only, as mentioned above, other SAPs would be encouraged to comply with its provisions, with the IESBA considering developing profession-agnostic standards for all SAEs as part of its SWP 2024-2027.

ED Comments

45. A large body of respondents supported that the IIS in Part 5 focus on SAEs with the same level of public interest as audits of financial statements. There were a few suggestions to consider extending the scope to other types of SAEs that could also be relevant to the public interest. A Monitoring Group respondent suggested extending the scope of the IIS in Part 5 to all assurance over sustainability

⁹ [Strategy and Work Plan, 2024-2027. Towards a More Sustainable Future: Advancing the Centrality of Ethics](#)

information required to be provided in accordance with law or regulation (such as a specific sustainability metric), not only sustainability information reported in accordance with a general-purpose framework.

46. A few respondents raised that in certain jurisdictions, sustainability information was not required to be provided by law or regulation. They questioned whether or not a SAE on sustainability information that is voluntarily disclosed would fall within the scope of the IIS in Part 5.
47. Some respondents were concerned that the terminology used to describe the SAEs with the same level of public interest as audit engagements was not sufficiently clear. They suggested that the IESBA provide further guidance and examples regarding engagements within the scope of the IIS in Part 5 to enable consistent application of independence requirements.

IESBA Decisions

48. The IESBA reaffirmed that the IIS in Part 5 should first focus on SAEs with the same level of public interest as audits of financial statements. The IESBA believed that the criteria provided in the ED appropriately captured the SAEs that are equivalent to audit engagements from a public interest perspective. The IESBA also considered that extending the scope of the IIS in Part 5, and consequently the more stringent independence requirements, to other SAEs would not be proportionate and could create an undue burden for Small and Medium Practices (SMPs), many of which would undertake such engagements. This might also hamper the developing market for sustainability assurance.
49. The IESBA noted that jurisdictions have the option to determine that other types of SAEs have such an impact on stakeholders in the specific jurisdiction that the SAP should also comply with the IIS in Part 5. However, given the current varied global regulatory landscape, the IESBA resolved not to make any significant changes to the determination of which engagements have the same level of public interest as audits of financial statements at the global level.
50. The IESBA also reaffirmed that the IIS in Part 5 do not differentiate the independence requirements based on the maturity of the sustainability regulations in the specific jurisdictions and whether or not the national laws or regulations set out mandatory sustainability reporting. As was proposed in the ED, the IIS in Part 5 apply not only where the sustainability information is required to be provided in accordance with law or regulation but also where the sustainability information is publicly disclosed (whether or not voluntarily) to support decision-making by investors or other stakeholders; provided that other criteria are also met. (See bullet (b) of paragraph 5400.3a.)
51. To respond to stakeholders' questions and request for further clarifications regarding the specific criteria in paragraph 5400.3a and examples of specific engagements that would meet such criteria, the IESBA has tasked IESBA Staff to develop non-authoritative guidance, including Frequently Asked Questions (FAQs), on the scope of the IIS in Part 5.

Responding to Non-Compliance with Laws and Regulations™ (NOCLAR®)

52. Similar to the extant Section 360, the proposed Section 5360 also includes two sets of provisions. One set of the provisions applies to (actual or suspected) NOCLAR identified in the context of SAEs within the scope of the IIS in Part 5 and another set applies to those SAEs outside the scope of the IIS in Part 5.

53. The provisions applying to SAEs within the scope of the IIS in Part 5 included a proposed new requirement regarding the communication of (actual or suspected) NOCLAR to the auditor of the sustainability assurance client. The IESBA also proposed a similar new requirement in extant Section 360 with respect to communication of (actual or suspected) NOCLAR identified by the auditor to the SAP.¹⁰
54. The proposed requirements in the ED in this regard was for the SAP and the auditor to consider communicating NOCLAR to each other. The proposed requirements to consider communication was guided by a list of illustrative factors,¹¹ which included the communication being permitted by the applicable laws and regulations.
55. The IESBA further agreed not to add a similar requirement regarding the communication of NOCLAR to other SAPs performing other SAEs (subject to the IIS in Part 5) for the same client. In reaching this decision, the IESBA took into account a number of factors, including the following:
- The primary responsibility under the NOCLAR regime, including its communication to the relevant parties, rests with the entity (management and those charged with governance (TCWG)), and therefore the SAP should not be overly burdened by communication duties towards third parties.
 - The likely impact that NOCLAR in sustainability assurance will have on the audit of the financial statements given the financial materiality aspect of sustainability reporting. This makes the communication to the auditor particularly relevant when compared to other SAPs which may be performing an engagement unrelated to the sustainability topic regarding which NOCLAR was identified.
 - The IESBA's intention not to make the NOCLAR regime (or the IESSA in general) overly complex, which could potentially hinder the adoption of the IESSA, especially by SAPs who are not PAs.
56. The IESBA also agreed that Section 5360 should only apply to NOCLAR committed by the parties listed in proposed paragraph 5360.5 A1 such as management and TCWG of a sustainability assurance client, and not extend it to situations where NOCLAR has been committed by entities in the sustainability assurance client's value chain. This is similar to the approach in extant Section 360, where the regime does not apply to situations where NOCLAR has been committed by a third party.

ED Comments

57. Although a substantial body of respondents supported the overall NOCLAR-related approach proposed in the ED, there were mixed views regarding the proposed requirement for the SAP and the auditor to consider communicating NOCLAR to each other. Some respondents, notably from the regulatory community, preferred a more stringent requirement (i.e., "*shall communicate*" instead of "*shall consider whether to communicate*"). Others took the view that the requirement should be

¹⁰ These proposals were made considering that the extant Code sets out requirements regarding the communication of NOCLAR identified by a PA performing a non-audit service to the auditor (see extant paragraphs R360.31 to R360.33). However, the IESBA recognizes the difference between SAEs within the scope of the IIS in Part 5 and non-audit services since the former have a higher level of public interest compared to the latter, which led to the IESBA deciding to develop standards that are equivalent to those applicable to audit engagements.

¹¹ The proposed list of factors in the ED was based on the list set out in extant paragraph 360.34 A1.

revised as application material, pointing out that communication of NOCLAR is primarily the entity's responsibility and that there would be a risk of sharing confidential information, especially if the practitioners belong to different firms or networks.

58. In addition, some respondents considered that it would also be important for the SAP to communicate NOCLAR not only to the auditor but also to other SAPs performing other SAEs for the same client. Respondents noted that an entity might appoint more than one SAP, although they acknowledged that this might be rare and/or a transitory situation. It was argued that in such a case, complete information sharing about NOCLAR would facilitate the other SAPs' consideration of the implications thereof on their ability to comply with the fundamental principles of integrity and professional behavior, thus increasing the effectiveness of the collective assurance provided.
59. There were also mixed views regarding the application of Section 5360 to value chain entities. While a few respondents expressed support for the ED proposal not to include value chain entities in the NOCLAR regime in Section 5360, a few others supported scoping them in.

IESBA Decisions

60. Given the mixed views on the ED proposal regarding the communication of NOCLAR between the SAP and the auditor, the IESBA determined to adopt an approach that mirrors the one set out in extant paragraphs R360.31 to R360.33 relating to the communication of NOCLAR to an entity's auditor by a PA performing a non-audit service. This means:
- Elevating the proposed requirement to consider communication into a requirement to communicate, subject to the relevant laws and regulations, if the SAP and the auditor belong to the same firm (as in paragraph R360.31);¹² and
 - Retaining the requirement to consider communication if the SAP and the auditor belong to the same network or different firms or networks (as in paragraphs R360.32 and R360.33).¹³
61. The IESBA believes this is a balanced approach given the respondents' mixed views while also recognizing the merits, under the "equivalence" objective, of not deviating from the approach set out in the extant Code for a similar situation. Nevertheless, the IESBA acknowledges differing views on the subject since the distinction between the requirements (shall communicate vs shall consider whether to communicate) is solely based on whether the practitioners belong to the same or different firms. However, the IESBA considers that the NOCLAR post-implementation review would be a more appropriate avenue to revisit these NOCLAR provisions in all three NOCLAR regimes set out in Sections 5360, 360, and 260 in a holistic way.
62. In addition, the IESBA agreed to add application material in Part 5¹⁴ clarifying that discussions between the SAP and management or TCWG is the right forum to consider whether management or TCWG should communicate NOCLAR to relevant parties (including the auditor and other SAPs). *[To be revised following the final wording that the IESBA agrees for paragraph 5360.11 A1(b)]* This new application material essentially serves the following purposes:

¹² See paragraph R5360.18a.

¹³ See paragraph R5360.18b.

¹⁴ See paragraph 5360.11 A1(b).

- Firstly, it reminds users of Part 5 (especially those who might not be as familiar with the Code) that the entity, and not the SAP, is primarily responsible for addressing NOCLAR. Therefore, any communication of NOCLAR to third parties should be made first by the entity.
 - Secondly, it contributes to the NOCLAR matter identified by the SAP being effectively communicated to the auditor through management or TCWG. Thus, it also contributes to offsetting the fragilities of the bifurcated approach set out in paragraphs R5360.18a and R5360.18b. When the SAP is only required to consider communication, the practitioner would have already discussed with management or TCWG whether they should inform any third parties (including the auditor) about the matter and therefore can use the content and outcome of those discussions as part of the consideration process set out in paragraph R5360.18b.
 - Thirdly, it addresses comments from respondents supporting the communication of NOCLAR also to other SAPs. It should be noted that, under this application material, such communication would be made by the entity, not the SAP.
63. The IESBA determined to retain its ED proposal regarding NOCLAR committed in the client's value chain, i.e., not to require the regime in Section 5360 to apply to it. However, this does not mean that the IESSA would support the SAP turning a blind eye to NOCLAR in the value chain, as paragraph 5360.7 A3 expressly recognizes that the SAP might find the guidance in Section 5360 helpful in considering how to respond in a situation of NOCLAR within the client's value chain.

International Independence Standards in the IESSA

64. The IIS in Part 5 require a SAP (referred to as "a firm" in the IIS) performing a SAE within the scope of the IIS to be independent. As an overarching principle, the conceptual framework set out in Section 5120 requires firms to identify, evaluate and address threats to independence in relation to a SAE. In Part 5, the IIS provide examples and other guidance on interests, relationships, and circumstances that might create such threats to independence.
65. The IESBA's premise in developing the IIS in Part 5 was that interests, relationships and circumstances that might create threats to independence in an audit of financial statements might also create threats in a SAE. The IESBA reviewed the independence standards for audit engagements in the IIS in Part 4A and considered whether any changes or refinements were necessary based on the specific characteristics of SAEs, for example, with respect to the different subject matter (i.e., the sustainability information) and the different reporting boundaries.
66. The rest of this section explains the key independence matters raised on exposure.

Determination of Public Interest Entities (PIEs)

67. Taking into account the premise of equivalency to the standards for audit engagements, the IESBA proposed to provide a proportionate approach in the IIS in Part 5 for sustainability assurance clients that are not PIEs. Therefore, some of the independence provisions in Part 5 were proposed to be applicable only to SAEs of PIEs.
68. The IESBA recognized that in the context of SAEs, stakeholders might also have heightened expectations given the nature of the entity and its sustainability information. However, the IESBA considered that there would be a potential for confusion if an entity was determined to be a PIE solely on the basis of its sustainability information when it is not a PIE for the purposes of the audit of its financial statements. Therefore, the IESBA proposed that an entity be deemed to be a PIE for the

purposes of the SAE if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A. (See paragraph 5400.13.)

69. However, in the case of a voluntary determination by the auditor of whether to treat an entity as a PIE for purposes of the audit of its financial statements, i.e., when the entity does not fall within the PIE definition, the IESBA did not believe that it would be appropriate for the Code to require another firm performing the SAE to treat the entity as a PIE. Therefore, in such circumstances, the IIS in Part 5 in the ED did not require the SAP to comply with the more stringent provisions applicable to PIEs. (See paragraph 5400.13a.)
70. If a sustainability assurance client is a PIE, the IIS in Part 5 require the firm to publicly disclose that it has applied the independence requirements for PIEs in the same manner as Part 4A requires for audit engagements. The IESBA coordinated with the IAASB on this matter of transparency regarding the application of the PIE independence requirements. The IAASB agreed to mirror the approach regarding such transparency matter as set out in ISA 700 (Revised) in the context of an audit of financial statements, in paragraph 190(d)(v) of ISSA 5000.

ED Comments

71. A substantial body of respondents supported the proposed proportionate approach with respect to PIEs and non-PIEs. They recognized the arguments to keep the determination of a PIE for audits of financial statements and SAEs within the scope of the IIS in Part 5 aligned at a global level. However, some respondents believed that relying solely on the entity's financial condition would not be an appropriate approach to determining the significance of the public interest in an entity for the purposes of the SAE.
72. Regarding the determination of an entity as a PIE and its related entities, a few respondents pointed out that the definition of a PIE and determination of related entities were developed for the purposes of an audit of financial statements. They believed that the approach to related entities in the ED was not appropriate for SAEs as the sustainability information of related entities – as defined in the Glossary – might not be included in the sustainability assurance client's report.

IESBA Decisions

73. In discussing the determination of a PIE for the purposes of a SAE within the scope of the IIS in Part 5, the IESBA acknowledged that interest in an entity's financial condition was not the only factor that could influence the significance of the public interest in an entity. The IESBA recognized the significant connectivity between an entity's sustainability information and financial statements. The IESBA also recognized the potential for confusion if an entity was determined to be a PIE solely on the basis of its sustainability information when it is not a PIE for the purposes of the audit of its financial statements. To support global implementation of sustainability reporting and assurance, the IESBA concluded that leveraging the existing definition in the Code provided appropriate clarity.
74. Nevertheless, the IESBA acknowledges in the IIS in Part 5 that specific jurisdictions and national laws and regulations might already have established sustainability-specific factors and determined an entity to be a PIE solely for the purposes of sustainability assurance. (See paragraph 5400.13b.) Where that is the case, national law and regulation applies.
75. Regarding the determination of related entities in the context of a SAE, the IESBA took a similar approach to the determination of PIEs. The IESBA believes that the related entities of a client should

be the same for the audit of the financial statements and the SAE. The determination of related entities relates to the chain of control or significant influence of the reporting entity and it does not depend on whether the sustainability information of the specific related entity is included in the client's sustainability report or financial statements. Therefore, the IESBA believes there would be a potential for confusion if the related entities of the reporting entity were not the same for the purposes of the SAE and the audit of the financial statements.

Group Sustainability Assurance Engagements

76. The IESBA considered that sustainability reporting and assurance will be focused mostly on entities that operate as groups, at least in the initial years when laws and regulations mandating sustainability reporting and assurance become effective. In addition, certain sustainability reporting frameworks already require reporting on a consolidated basis. Therefore, the ED expressly addressed the independence considerations for group SAEs, i.e., when a group sustainability assurance firm and any component sustainability assurance firms, and members of the sustainability assurance team carry out the assurance work. However, while developing the ED, the IESBA noted that ED-5000 had addressed group SAEs only in a general and overarching way.
77. With respect to the determination of the entities and components within the group, the ED proposed that the component definition excludes entities within the value chain. Given that the determination of entities within the value chain is based on the applicable reporting framework, the ED proposed that the Code define a client's value chain by reference to the applicable reporting framework. Based on the proposed definition of group sustainability assurance client, the ED set out that value chain entities are not part of the client's organizational boundary and are not under its control (i.e. they are not part of the group sustainability assurance client). Therefore, the proposed provisions in Part 5 relevant to *group sustainability assurance clients* did not to apply to value chain entities. The ED, however, included provisions in separate sections (Sections 5407 and 5700) in the proposed IESSA to explicitly address the independence considerations applicable when assurance work is carried out at, or with respect to, a value chain entity for the purposes of the SAE.
78. The ED also recognized that where a firm uses the work of a sustainability assurance practitioner who separately performs the assurance work at a value chain entity, the firm still has ultimate responsibility for the SAE and the opinion on the sustainability information. In this regard, the ED proposed that Part 5 recognize that interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and that value chain entity might create threats to the firm's independence. The ED therefore proposed to require the sustainability assurance team to apply the "knows or has reason to believe" principle with respect to such interests, relationships or circumstances.

ED Comments

Approach to Group SAEs

79. A substantial body of respondents who commented on this matter acknowledged that the regulatory environment tended to evolve towards mandating sustainability reporting and assurance for large entities and that there are existing requirements for consolidated reporting in certain jurisdictions. Although they raised comments regarding the perceived complexity and practicality of the proposals in the ED, they supported including specific independence considerations applicable to group SAEs.

At the same time, however, there were also many views that the IESBA and IAASB needed to address groups holistically.

80. Regarding the proposed definitions of terms in the ED, a few respondents noted that ED-5000 did not use the same terminologies as in the IESSA or that the proposed definitions were not aligned. Many respondents raised that the IAASB's proposals developed after the public consultation on ED-5000 provided a different determination for a "component" than the IESBA's ED. They felt that this difference between the two sets of proposals could result in significant inconsistency and confusion. It was also noted that the proposed component definition, which excluded value chain entities, might not be in line with the concept of the reporting boundary in some sustainability reporting and assurance frameworks.

Value Chain Entities

81. Respondents raised comments regarding the perceived complexity of the proposed independence considerations applicable to value chain entities. There were suggestions for issuing guidance to support implementation, with detailed diagrams and further examples.
82. Many respondents also pointed out the difficulty related to identifying and obtaining information from entities within the value chain that are outside the reporting entity's organizational boundary. In addition, they noted that the sheer volume of value chain entities at some clients, including through potentially multiple layers of suppliers, could make it impossible to apply the proposals in practice. Given these challenges, some respondents questioned the operability of the proposed requirement to apply the "knows or has reason to believe" principle in Section 5700 of the ED when the firm uses the assurance work of another practitioner performed at a value chain entity.
83. It was also raised that independence requirements with respect to value chain entities could have unintended consequences. A few respondents pointed out that Part 4A of the Code does not require the auditor to be independent if they perform procedures on information from the client's suppliers, banks or customers, for the purposes of the audit engagement. They therefore argued that it would be disproportionate to require independence from value chain entities.
84. There were views that, given these perceived practical challenges and the early stage in the development of the mandatory sustainability assurance market, it was too early to establish independence requirements with respect to value chain entities.

IESBA Decisions

Approach to Group SAEs

85. Responsive to the comments encouraging closer coordination with the IAASB as well as on ensuring the interoperability of the group-related proposals in the ED with ISSA 5000, the IESBA increased its coordination with the IAASB to address, among others, the matters raised in the comment letters regarding group SAEs. Based on the feedback received during the public consultation on ED-5000, the IAASB also agreed to include specific provisions in ISSA 5000 addressing SAEs.
86. As a result of the further coordination with the IAASB, the terms and definitions in relation to group SAEs in the IIS in Part 5 and ISSA 5000 are fully aligned, including group, component, group component, value chain component, component practitioner, group sustainability assurance engagement, group sustainability assurance information and reporting boundary.

87. In light of these amendments to ISSA 5000, the IESBA agreed that it was important to retain the independence standards for group SAEs in IIS in Part 5. The IESBA acknowledges that the proposed standards for group SAEs might appear complex, especially on first-time application. Therefore, the IESBA has agreed to commission IESBA Staff to prepare implementation support materials related to group SAEs, especially having regard to non-PA SAPs and first-time application of the provisions. Notwithstanding the provision of such implementation support, the IESBA believes that the alignment of the IESSA with ISSA 5000 and the revisions promoting simplicity should help mitigate the concerns regarding complexity.

Determination of Components

88. Regarding the determination of components for the purposes of a SAE, the IESBA determined to revise the approach in coordination with the IAASB. The definition of a component continues to be broadly in line with that for a component in an audit engagement, referring to “an entity, business unit, function or business activity, or some combination thereof, within the *reporting boundary*, determined by the group sustainability assurance firm for purposes of planning and performing assurance procedures in the group sustainability assurance engagement” [emphasis added]. This provides for the recognition also of value chain components (VCCs) (see below), which are not relevant in an audit.
89. In line with the IAASB’s determinations in ISSA 5000, the IESBA determined to define two types of components: group components and VCCs. The IESBA and IAASB discussed differentiating between a group component and a VCC depending on whether or not the component is within the reporting entity’s operational control.¹⁵ However, there were views in the IESBA that different determinations of operational control could result in inconsistency in the application of the independence requirements. There was also a concern about the potential for confusion between the concept of operational control and the concept of control in the definition of a related entity in the Code. In addition, there was a view that it would not be proportionate to require the application of the more stringent independence requirements to value chain entities that are within the reporting entity’s operational control and would be treated as group components. In the light of those concerns, the IESBA determined in coordination with the IAASB to link the definitions for group component and VCC by reference to the reporting boundary for the reporting entity’s group financial statements.¹⁶
90. Equivalent to the approach for group audits, a group component at which assurance work is performed will be part of the group sustainability assurance client, based on the definition of the latter. Consequently, any requirements and application material that apply with respect to the group sustainability assurance client will also apply to a group component at which assurance work is performed. However, given the nature of the relationship between the reporting entity and a VCC, the IESBA determined that a group sustainability assurance client should not include VCCs. Consequently, the provisions in the IESSA that apply to the sustainability assurance client do not

¹⁵ The determination of operational control was presumed to be specified in the applicable sustainability reporting framework.

¹⁶ The definitions in Part 5 also include explanatory guidance in terms of how to determine a component for the purposes of the independence considerations, depending on whether the component is a legal entity. If the group component is a legal entity, the definition also covers the controlled entities of such legal entity. However, recognizing the need for proportionality and balance, the IESBA agreed that the determination of a value chain component should only the legal entity when it is an entity, and not also controlled entities.

apply to VCCs. The IESSA set out separate independence provisions applicable to assurance work performed at a VCC.

Independence Requirements in Section 5405

91. Based on the proposed new approach to VCCs, the IESBA restructured Sections 5405, 5406, and 5407 of the ED to streamline and simplify the independence provisions. As a result of the restructuring, the IESBA made revisions to:
- Move the provisions in Section 5407 that apply to value chain entities to the revised Sections 5405 and 5406.
 - Include the provisions applicable when a firm or a component practitioner performs assurance work at a VCC in revised Section 5405; and
 - Include the provisions applicable when a firm uses the assurance work of another practitioner at a VCC in revised Section 5406.
92. In line with the ED proposals, Section 5405 sets out independence considerations for the group sustainability assurance firm and its network firms, component practitioners, and members of the sustainability assurance team from that firm or component practitioners in whose assurance work the firm can be sufficiently and appropriately involved. Based on the restructuring, the IESBA created Subsections A and B in Section 5405 to cover independence considerations applicable to:
- (a) Assurance work performed at a group sustainability assurance client (including group components); and
 - (b) Assurance work performed at a VCC.
93. During the public consultation and in the course of the IESBA's deliberations, it was emphasized that it would be important for SAPs to apply the term "perform assurance work at" consistently, as this would drive the application of the independence requirements with respect to the relevant components. The IESBA agreed that the reference to "performing assurance work at" does not mean that the SAP needs to be physically present at the component, as the assurance work could be performed by accessing the underlying data and information maintained by the component and which forms part of, or is used to prepare, the component's sustainability information.
94. To clarify the meaning of "performing assurance work at," the IESBA determined to add application material, developed in coordination with the IAASB, to assist consistent application of the independence provisions (see paragraph 5405.2 A3). This guidance is consistent with guidance provided in non-authoritative implementation support material developed by IESBA Staff¹⁷ (which was also developed in coordination with IAASB Staff) in relation to Section 405 of the IIS in Part 4A as that section applies to group audits.

Independence Provisions When Assurance Work is Performed at a Value Chain Component

95. The IESBA believes that the new approach to components and the introduction of the concept of VCC clarify that the IESBA did not propose to extend the independence considerations to the entire value chain. In line with the definitions of value chain and VCC, the IIS in Part 5 focus only on a value chain entity whose sustainability information is included in the client's sustainability information and

¹⁷ See FAQ nr.14 in the [IESBA Staff Questions and Answers related to Engagement Team-Group Audit Independence](#).

the firm determines that assurance work needs to be performed on the underlying data or information maintained by that value chain entity.

96. Recognizing the developing practices related to reporting and assuring sustainability information regarding the value chain, the IESBA reiterated its objective to establish a balanced and pragmatic approach to independence considerations applicable to assurance work performed at VCCs. Accordingly, the relevant requirements focus only on the independence of the firm or the component practitioner that actually performs assurance work at a VCC. (See Subsection B in Section 5405.)
97. The IESBA believes that the requirements in Section 5405 in Part 5 provide a proportionate approach. The IESBA discussed the distinction between independence considerations applicable to VCCs and those applicable to other entities such as an audit client's bank(s) and customers. Unlike, for example, account balances with banks and accounts receivable from customers of an audit client, the underlying sustainability data or information captured and recorded by a VCC's systems might be subject to assurance procedures at the component to obtain evidence for purposes of the group SAE. Therefore, the IESBA agreed that setting out balanced and pragmatic independence requirements with respect to VCCs in the IIS in Part 5 promotes credible and trustworthy sustainability assurance, and is in the public interest.
98. The IESBA considered the potential practical challenges raised by respondents with respect to the application of the "knows or has reason to believe" principle, including a perceived need for formal monitoring, regarding any interests, relationships, or circumstances between the firm, its network firms and members of the sustainability assurance team, and the value chain component if the firm uses the assurance work of other practitioners performed at the VCC (as set out in Section 5700 of the ED). Given the revised approach to VCCs, the IESBA determined on balance that there are sufficient guardrails around the SAP's independence when it is performing assurance work at a VCC. Therefore, the IESBA agreed to delete Section 5700 of the ED.
99. The appendices illustrate the independence considerations in Section 5405 applicable to the group sustainability assurance firm, component practitioners within or outside the group sustainability assurance firm's network, and members of the group sustainability assurance team.
100. The IESBA believes that the revisions and clarifications it has made to the ED proposals, and the coordination between the IAASB and IESBA to align the two sets of standards and simplify the approach to VCCs, will help to facilitate the implementation and consistent application of the independence provisions in practice. Furthermore, the IESBA agreed to commission IESBA Staff to develop FAQs or other non-authoritative guidance to further support the implementation of the relevant independence provisions.
101. The IESBA also considered the requests to provide transitional provisions with respect to the independence requirements applicable to VCCs, given the developing regulatory environment and reporting landscape. However, the IESBA was of the view that the decision on transition is within the remit of the regulators of the specific jurisdictions. Since the determination of a value chain entity and a VCC is directly linked to the applicable reporting and assurance frameworks, if regulators provide transitional provisions for reporting sustainability information with respect to the entity's value chain, the independence requirements in the IESSA applicable to the VCC might not apply. However, if the entity reports on sustainability information regarding the value chain, it is in the public interest that high-level, global independence requirements be available that are interoperable with the assurance standards and underpin the credibility of the assurance work.

Using the Work of Another Practitioner

102. For the purpose of issuing an assurance report on sustainability information, a firm might wish to use the work of another practitioner who has already carried out, or will carry out, assurance work with respect to a group sustainability assurance client or a VCC. In this regard, ED-5000 set out the conditions for using the work of “another practitioner,” including complying with the relevant ethical requirements. The IESSA-ED set out these relevant ethical (including independence) requirements when using the work of another practitioner in a proposed Section 5406.
103. Since the firm cannot be sufficiently and appropriately involved in the work of another practitioner, the premise of the ED proposals was that the IIS in Part 5 could not directly impose independence requirements on another practitioner, who might not even be subject to the Code. Accordingly, the ED set out requirements for the firm to request confirmation of the other practitioner’s independence in accordance with Part 5.
104. The ED set out different independence requirements depending on whether the firm intends to use the assurance work of another practitioner performed at the sustainability assurance client or a value chain entity. Recognizing that the assurance work of another practitioner performed at the value chain entity might be used for the purposes of many sustainability assurance engagements, the IESBA believed that requiring communication on a case-by-case basis would not be pragmatic, and would be burdensome. Therefore, in the case of value chain entities, the ED provided the option for the firm to rely on another practitioner’s statement of independence when complying with the relevant requirements in Section 5406.

ED Comments

105. A substantial body of respondents supported that the IIS in Part 5 establish relevant ethical requirements when the SAP intends to use the work of another practitioner as set out in ISSA 5000, as well as the premise underlying the ED proposals in Section 5406. They encouraged the IESBA to continue coordinating closely with IAASB on that matter.
106. However, some respondents had concerns regarding the operability of the proposals. They questioned how the SAP could communicate the relevant ethical requirements and request confirmation regarding the other practitioner’s compliance with those requirements if the SAP has no ability to direct, supervise or review that other practitioner’s work. Given such perceived challenges, it was suggested that the IESBA consider whether the proposed requirements were proportionate, and provide more clarity regarding the independence requirements applicable to the assurance work of another practitioner.
107. It was also noted that there may be jurisdictions where SAPs who are not PAs would not be required to comply with the IESBA Code, but would be subject to other professional ethics standards. Therefore, a few respondents suggested that the IIS in Part 5 allow another practitioner to confirm their independence in accordance with other ethical requirements in relevant law, regulation or professional standards related to assurance engagements that are at least as demanding as the IESBA Code.
108. A few respondents pointed out that if the work has already been carried out, the other practitioner might have complied with Part 4B of the Code or might not have been asked or been aware of the need to comply with the Code. In this regard, it was suggested that the IESBA consider granting a transitional period to allow use of the other practitioner’s work in such circumstances.

109. Many respondents and stakeholders questioned what the consequences would be if a firm cannot confirm another practitioner's independence. They suggested that the IIS in Part 5 address whether the firm can use the assurance work in any form in such circumstances.

IESBA Decisions

Using the Assurance Work of Another Practitioner

110. The IESBA continued close coordination with the IAASB on this matter and made amendments to the determination of another practitioner and the description of how the work might be used to address respondents' comments concerning clarity. The changes clarify the objective of using the work of another practitioner and emphasize that such a practitioner does not perform assurance procedures for the purposes of the SAE.
111. The IESBA discussed whether applying the same independence requirements throughout the group entities or other group components, irrespective of whether the firm can be sufficiently and appropriately involved in the assurance work of the other practitioner, would be a more pragmatic approach. There was a view that confirming that the other practitioner satisfies the same independence requirements that apply throughout the group would create ethical requirements that would risk being impossible to meet. Consequently, the IESBA agreed that the other practitioner needs to confirm their independence in accordance with the provisions in Part 5 that apply to the entity at which the practitioner performs the assurance work, but not from any of its related entities. Furthermore, the IESBA also agreed that the PIE status of a sustainability assurance client should not impact the expectations regarding the other practitioner's independence. The IESBA agreed to commission IESBA Staff to provide further clarification in non-authoritative guidance.
112. Some stakeholders expressed concerns that the independence requirements applicable to practitioners who perform assurance work at a sustainability assurance client (including group components) should be the same irrespective of whether or not the firm can be sufficiently and appropriately involved in the work. They argued that less stringent independence requirements might influence firms' determination of whether or not to use the work of another practitioner. However, the IESBA noted that when work is performed in relation to sustainability information of a group component, there is a presumption under ISSA 5000 that the firm would ordinarily be sufficiently and appropriately involved in that work.¹⁸
113. The IESBA determined that the requirement regarding another practitioner's independence in accordance with Part 5 can be met if that practitioner is in compliance with other independence requirements in relevant laws, regulations or professional standards related to assurance engagements that are at least as demanding as the IIS in Part 5. Therefore, the amended wording of the requirement in Section 5406 sets out that the firm needs to confirm that the other practitioner *satisfies* the relevant independence requirements in Part 5 (see paragraph R5406.5).
114. The IESBA also determined to provide guidance in Section 5406 explaining the consequences if the firm cannot confirm another practitioner's independence. As explained in the explanatory memorandum to the ED, it is not within the remit of the Code to specify that the firm cannot use the other practitioner's work, as this is a matter to be determined in the assurance standard. Accordingly, the application material explains that if the firm is unable to be satisfied regarding another

¹⁸ See paragraph A104 of ISSA 5000.

practitioner's independence, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of Part 5. In such circumstances, the applicable assurance standard might address the implications for the SAE. (See paragraphs 5406.5 A1 and 5406.6 A2.)

115. The IESBA also included a transitional provision in the case of early adoption of the IIS in Part 5. Thus, the firm is allowed to accept confirmation of the independence of another practitioner for the purposes of the SAE even if the other practitioner is independent in accordance with Part 4B.
116. Appendix XX illustrates the independence considerations in Section 5406 applicable when the firm intends to use the assurance work of another practitioner at a sustainability assurance client (including group components) and value chain components.

Using the Non-Assurance Work of Another Practitioner

117. In the course of its deliberations post-exposure, the IAASB determined to make changes to the proposals in ISSA 5000 to address the situation where the firm intends to use non-assurance work performed by another practitioner.
118. As the IIS in Part 5 apply only to SAEs, the IESBA considered that it would not be appropriate to require the firm to be satisfied about another practitioner's independence in accordance with the IIS in Part 5 if the firm will use only non-assurance work performed by the other practitioner. Therefore, in coordination with the IAASB, the IESBA developed provisions in the ethics standards in Section 5300 in Part 5 that apply when the firm intends to use the non-assurance work of another practitioner. These provisions require the firm to exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfil the firm's responsibilities to comply with the fundamental principles of integrity, objectivity and professional competence and due care. The related guidance also sets out examples of factors to consider in determining the appropriate steps to take.¹⁹ (See paragraphs R5300. 11 to 5300.11 A2.)
119. The IESBA believes that these provisions establish a proportionate approach that builds on the application of the conceptual framework, without creating an undue burden on the firm when it intends to use the non-assurance work of another practitioner.

Providing NAS to a Sustainability Assurance Client

120. Taking an equivalent approach to the independence standards for audit engagements, the ED set out that providing NAS to a sustainability assurance client might create threats to compliance with the fundamental principles and to independence. The IIS in Part 4A addressing the provision of NAS to an audit client focus on the impact of such services on the financial statements. Likewise, the IESBA believed that in the context of a SAE, the provision of NAS may impact the sustainability information on which the firm expresses an opinion. Consequently, the IESBA agreed that the general requirements and application material set out in Section 600 of Part 4A for audit engagements (such as the prohibition from assuming management responsibility, the "self-review threat prohibition," and communication with TCWG) are also applicable when the firm provides NAS to a sustainability assurance client.

¹⁹ The paragraphs R5300. 11 to 5300.11 A2 are in line with the extant Code's provisions in Section 220 applicable when the PA relies on the work of others.

121. Recognizing that NAS may be provided by different types of practitioners (including smaller “boutique” SAPs to large professional services firms and their networks), the IESBA agreed to address types of NAS similar to those in relation to the audit, tailored with additional examples and supplemented with a few additional types of NAS based on consultation with the SRG. The proposed additional types of NAS included sustainability data and information services in Subsection 5601, and forecasting and similar services in Subsection 5603. This approach supports achieving equivalence between the independence provisions applicable to audit and those applicable to SAEs.

ED Comments

122. A substantial body of respondents commenting on these proposals were in agreement with the proposed approach.
123. Some respondents noted that sustainability is an emerging area and the NAS performed for sustainability assurance clients are also evolving. They argued that mirroring the requirements from Section 600 in Part 4A would not be appropriate as those were developed for the audit of financial statements and do not necessarily capture all the types of NAS that SAPs might provide to their clients. Furthermore, they had concerns that the specific types of NAS in the ED were not sufficiently adapted to sustainability matters (e.g., tax services) and that the examples were not as relevant to sustainability information. A few respondents were of the view that the IESBA should consider removing subsections 5601 to 5610 and develop a principles-based Section 5600 at this stage. They felt that the IESBA might be better positioned to add coverage of specific NAS over time.
124. There were a few requests for clarification regarding the determination of a self-review threat when the firm expresses an opinion only on specific sustainability information. They questioned the IESBA's approach to the determination of self-review threat and the impact of the NAS in relation to sustainability information of the reporting entity that is not within the scope of the SAE.
125. Some respondents also suggested that the IESBA consider adding transitional provisions to clarify that the proposals are not applicable to NAS the SAP might be performing before the provisions come into effect.

IESBA Decisions

126. The IESBA observed that stakeholders who participated in the global IESBA roundtables that informed the IESBA's proposals generally agreed that ethics and independence standards for the audit and the SAE should be equivalent. The IESBA also noted that the provision of NAS to an audit client focuses on the impact of such services on the financial statements. However, in the context of a SAE, the IESSA addressed the impact of the same types of services on the sustainability information on which the firm expresses an opinion. Therefore, the IESBA believed that it would not be in line with the premise of equivalency if (a) the IIS in Part 5 and Part 4A did not take the same approach with respect to the provision of NAS to a client, and (b) did not address the same types of NAS, where applicable. The IESBA recognized that certain types of NAS, e.g. tax services, were more likely to impact the financial statements; however, depending on the facts and circumstances, these NAS could also impact the sustainability information. The IESBA considered that addressing a different list of NAS in Part 5 could give the impression that the provision of NAS not in that list is permissible to a sustainability assurance client without regard to whether the NAS would affect the information reported on by the practitioner.

127. To emphasize the relevance of the specific types of NAS covered and their potential impact on sustainability information, the IESBA included some clarification in the Introduction to Section 5600 (see paragraph 5600.6a) and the subsections.
128. Concerning the comments on the determination of a self-review threat, the IESBA accepted the point raised by respondents. Accordingly, the IESBA determined to make amendments throughout the IIS in Part 5 to clarify that the provision of NAS could only create threats to independence if it impacts the sustainability information on which the firm expresses an opinion. Unlike an audit engagement where the auditor expresses an opinion on the entirety of the client's financial information, a SAP might only express an opinion on parts of the sustainability information (e.g. on greenhouse gas emission), while sustainability information related to other sustainability matters (e.g. human rights) are not subject to the SAE.
129. The IESBA also determined to add a transitional provision applicable to NAS engagements a firm or network firm has entered into with a sustainability assurance client before the effective date of the IESSA. The transitional provision is in line with the approach taken, for audit, in the April 2021 [Final Pronouncement on Revisions to the Non-Assurance Services Provisions in the Code](#). However, in response to feedback from the PIOB to minimize the potential for misuse of the transitional provision, the IESBA resolved to limit the period of its applicability, allowing the firm to continue the NAS engagement under the original engagement terms for one reporting cycle only.

Independence Matters When A Firm Performs Both the Audit and Sustainability Assurance Engagement

130. The IIS in the ED also addressed certain independence matters and provided related guidance when the firm performs both the audit and the SAE for the same client.

Fee-related Proposals

131. In developing the ED, the IESBA considered that there might be threats to the firm's independence arising from concerns about the potential loss of the SAE as a separate engagement, which might impact the firm's objectivity. The IESBA also acknowledged that there might be a perception that the firm or network firm focuses on the sustainability assurance relationship to the detriment of the audit engagement, or vice versa. Consequently, if the auditor also provides sustainability assurance services to the client, the IESBA proposed revisions to Part 4A requiring the firm to disclose the fees for such services as non-audit fees and consider applying safeguards against threats created regarding the proportion of non-audit fees to audit fees.

ED Comments

132. Regarding the proposal for public disclosure of fees from a sustainability assurance client, a few respondents noted that, unlike audit fees, the disclosure by a client of fees for SAEs was not specifically required by law or regulation in many jurisdictions, unless the SAP is also the auditor. Given this regulatory context, the respondents pointed out that it would be challenging for firms to make the client disclose such fees, resulting in firms having to make this disclosure in the absence of the client doing so.
133. Some respondents argued that the fees for mandatory SAEs should not be disclosed and treated as fees for non-audit services. They suggested that the Code make a distinction between fees for SAEs and other non-audit services, such as fees for statutory services or audit-related fees, etc.

134. Many respondents commented on the proposal regarding the proportion of fees and raised that treating fees for SAEs in the same manner as fees for services other than audit when determining the proportion of fees from the same client seemed inconsistent with the IESBA's objective regarding equivalency of the standards with those for audit engagements. They believed that the relative proportion of audit fees and fees for SAEs would not create a threat since the IESBA envisaged the same independence standards applying to both types of assurance engagements. They were of the view that the proposal was not in line with the current trend toward integrated reporting and would create a barrier to the ultimate goal of integrated reporting. It was also raised that the interconnectedness of the financial and sustainability information may even suggest a public interest benefit if the same firm performed both engagements.

IESBA Decisions

135. The IESBA considered the comments raised regarding the current regulatory context for the disclosure of the sustainability assurance fees by the client and the potential challenges firms might face to meet the obligations for fee disclosure set out in the proposed IIS in Part 5. The IESBA, however, considered that there was a greater interest in stakeholders receiving the same information about a SAP's independence as in the case of the audit of the financial statements. Therefore, the IESBA agreed to retain the equivalence between the approach regarding the fee disclosure with respect to audit fees and the approach with respect to sustainability assurance fees.
136. The IESBA also took into account that, in practice, the audit and SAE are generally separate engagements, and in jurisdictions that require the disclosure of fees, law or regulation generally mandates the disclosure of fees for the audit of the financial statements only. The IESBA reaffirmed its view that the disclosure of fees for the audit of the financial statements, separated from other fees, serves as a guardrail around the auditor's independence. In addition, the IESBA noted that the extant Code was not prescriptive regarding the breakdown of the types of fees for non-audit services for public disclosure. The Code leaves the determination of the specific types of non-audit fees and the disclosure of such fees to the national laws and regulations in the specific jurisdictions. In line with that approach, the IESBA determined that the IIS in Part 5 not prescribe whether the public disclosure of the non-audit fees should be broken down into fees for audit-related services, assurance, non-assurance services, or any other type of fee categories.
137. The IESBA deliberated the comments regarding the proposals related to the threats created by the relative proportion of fees for audit and SAEs. Since the IESBA's objective was that the same independence standards apply to both audit and SAEs within the scope of the IIS in Part 5, the IESBA accepted the view that the relative proportion of audit fees and fees for such SAEs would not create a threat. Therefore, the IESBA determined to revise the guidance in the consequential amendments to Section 410 in Part 4A accordingly.

Long Association

138. The ED also addressed circumstances when the auditor later becomes the provider of sustainability assurance services (or vice versa) to the same client, with the extended period of the relationship (long association) potentially creating familiarity and self-interest threats to independence. The ED also proposed consequential amendments to Section 540 in Part 4A applicable to audit engagements.

139. Respondents generally supported the proposed approach and the overarching principles, but there were a few requests for clarification on whether the provisions in proposed Section 5540 were intended to apply retrospectively or prospectively from the proposed effective date.
140. Responsive to the comments raised, the IESBA determined to introduce a transitional provision for circumstances when the firm participated in a SAE at the client before the IESSA comes into effect.

IV. Sustainability Reporting

Background and Scope of the Revisions

141. The rapidly changing ecosystem of sustainability standard setting, and the qualitative and forward-looking nature of sustainability information result in increased challenges, complexity and uncertainty in preparing or presenting sustainability information. Accordingly, PAs' exercise of discretion and professional judgment play a crucial role when performing such activities.
142. While recognizing the public interest benefits of all preparers of sustainability reporting being subject to the same robust ethics standards (i.e., profession-agnostic), the IESBA determined to restrict the scope to developing ethics standards for sustainability reporting by PAs at this stage. In reaching this decision, the IESBA took into account that there was no urgent regulatory call for profession-agnostic standards for sustainability reporting. There were also no strong views from stakeholders at the IESBA's global sustainability roundtables in 2023 that the scope should include profession-agnostic ethics standards for sustainability reporting at this stage.
143. However, in developing its SWP 2024-2027, the IESBA observed that there is a public expectation that all preparers of financial and non-financial information should be subject to the same high ethics standards. Therefore, the IESBA agreed it was in the public interest to establish a new work stream to explore extending the impact of the Code to all preparers of sustainability reporting. This new work stream is expected to commence in 2026.

ED Comments

144. ED respondents generally supported the IESBA's new work stream on exploring extending the scope of the Code to all preparers of sustainability information. Several respondents recognized the benefit or public interest in having all preparers of sustainability information be subject to the same ethics standards and establishing a level playing field. Many respondents referred to the diverse backgrounds of non-PAs who might not be subject to the Code. Concerns included that it is unclear how regulatory oversight of compliance with the Code will occur for non-PAs, and that a lack of background knowledge of the Code might be seen as a barrier to entry or burden. Some respondents suggested that the IESBA should determine the level of demand from preparers and regulators before extending the Code to all preparers of sustainability information. ED respondents' comments will be duly considered by the IESBA's new work stream in due course.

Sustainability Reporting-related Revisions to the Extant Code

145. Extant Parts 1 to 3 of the Code already contain robust standards addressing ethics issues that might arise when performing financial or non-financial reporting. Accordingly, the sustainability reporting-related revisions in the ED were not substantive. They aimed to enhance the extant Code and ensure it remains fit for purpose for sustainability reporting by including sustainability references where

applicable, and revisions to existing examples and new examples specific to misleading conduct (e.g., “greenwashing”), value chain considerations, and forward-looking information.

146. The most substantive revisions proposed were to Section 220²⁰ to, among other matters:

- Clarify that the preparation or presentation of information relates to not only an entity's state of affairs, but also its operations, such as services or products, and includes collecting and measuring the information.²¹
- Expand the extant requirement to exercise professional judgment when preparing or presenting information, to also incorporate describing the impacts of business transactions or activities and collecting and measuring information in a timely and proper manner.²²
- Expand the types of information a PA is encouraged to consider documenting to include analysis, assumptions, and judgments and decisions made in preparing or presenting the information.²³

ED Comments

147. ED respondents generally supported the proposed sustainability reporting-related revisions and key comments raised by respondents included the following:

- Whether the example in paragraph 200.6 A1(a) on holding a financial interest in a supplier of an employing organization is appropriate. It was argued that while it might create a self-interest threat in a few instances, suppliers are not controlled like subsidiaries and value chain compositions are unpredictable and can rapidly change.
- A suggestion to revise paragraph 200.7 A3 to emphasize the importance of having controls over both financial and non-financial, including sustainability, information.
- Suggestions to revise paragraph 220.3 A2, including to change “*operations and state of affairs*” to “*activities and state of affairs*” to capture broader matters such as social initiatives and to expand the sustainability information example.
- A view that the new example in paragraph 220.4 A1 narrowly interprets “greenwashing” / “greenhushing” as deliberate actions. There was a suggestion to consider addressing excessive optimism, unintentional misrepresentations, or “greenwishing” (such as failing to apply an inquiring mind).
- Whether proposed paragraph 300.7 A4a on the quantitative and qualitative characteristics of the value chain (and similar factor added to paragraph 320.3 A4) is inappropriate for a PA's evaluation of threats, as value chain entities are outside the organizational boundary of, and there is insufficient relationship with, the client.

IESBA Decisions

²⁰ Section 220, *Preparation and Presentation of Information*

²¹ See paragraphs 220.3 A2 and A3.

²² See paragraph R220.4(c).

²³ See paragraph 220.11 A1.

148. The proposed example in paragraph 200.6 A1(a) on holding a financial interest in a supplier did not contemplate all such situations creating a self-interest threat, or that such threats are at an unacceptable level (i.e., the conceptual framework must be applied). However, the IESBA agreed to delete this example as such interests might not create a substantive threat in most cases, and due to the added complexity of tracking financial interests in a potentially rapidly changing value chain.
149. The IESBA accepted the suggestion to highlight the importance of having controls over both financial and non-financial information due to emerging nature of sustainability reporting, and that sustainability information might be extracted from throughout an organization. The IESBA also believes the connection between financial and sustainability information and interaction between the respective internal controls and systems are critical for robust reporting. The IESBA therefore determined to revise paragraph 200.7 A3 accordingly.
150. Regarding respondents' comments on paragraph 220.3 A2, the IESBA agreed that "operations" could be narrowly read to relate only to products or services and that "activities" is a broader term capturing other matters such as social initiatives or human resources (both relevant to sustainability). Further, the IESBA agreed to emphasize that sustainability information exceeds "state of affairs" and revised this paragraph to align the description to the definition of sustainability information regarding an *"organization's business model, products, services, or other relevant activities."*
151. The IESBA agreed with respondents' suggestions to incorporate an example of unintentional "greenwashing" / "greenhushing" (sometimes referred to as "greenwishing"). Accordingly, the IESBA added new paragraph 220.4 A3 on inappropriate exercise of professional judgment²⁴ which applies equally to the preparation or presentation of financial and non-financial information. This guidance draws on the example of confirmation bias which can affect the exercise of professional judgment.²⁵
152. The IESBA remains of the view that quantitative and qualitative characteristics of a client's value chain might impact the PA's evaluation of threats.²⁶ The evaluation of a threat to professional competence and due care might be impacted where multiple suppliers (from outside the client's organizational boundary) use different reporting frameworks, and the suppliers' information is required to prepare or present the client's sustainability information. However, the IESBA agreed to revise paragraph 300.7 A4a to clarify that it relates to the evaluation of a threat when the PA is preparing or presenting sustainability information.

V. Effective Date

153. As part of the coordinated approach with the IAASB's sustainability project, the IESBA proposed in the ED that the effective date of the proposed changes arising from this project should be aligned with the effective date of ISSA 5000.
154. A substantial body of ED respondents agreed with the IESBA's proposal, highlighting the need for sufficient time for adoption and implementation. Respondents also expressed the need for guidance materials.
155. Following close coordination with the IAASB, the IESBA agreed to align the effective date of the IESSA with ISSA 5000, which the IESBA believes will provide sufficient time for adoption and

²⁴ Relevant to the requirement in paragraph R220.4(c)

²⁵ See paragraph 120.12 A2.

²⁶ See paragraphs 300.7 A4a and 320.3 A4.

implementation. Accordingly, the IESBA determined that the IESSA should be effective for assurance engagements on sustainability information reported:

- For periods beginning on or after December 15, 2026; or
- As at a specific date on or after December 15, 2026.

156. The IESBA also agreed that early adoption be permitted and encouraged.
157. With regards to the effective date of the sustainability reporting-related revisions, the IESBA agreed that these revisions should also be effective as of December 15, 2026, with early adoption permitted and encouraged.
158. The IESBA also determined to provide transitional provisions, as presented above in paragraphs 115, 129 and 140 in this document.

Appendix 1

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[Updated flowcharts to Sections 5405 and 5406 to be added]