

Agenda Item 2-A.1 (WS1 Updates)

Note to IESBA Members

The document below includes the proposed changes to the International Independence Standards (IIS) in Part (and the related material) added after the IESBA's discussion on the draft Standards on Monday, December 2, 2024.

The proposed changes are from mark-up from the consolidated version of [Agenda Item 2-A](#) and the [Updates to Agenda Item 2-A](#) posted to the Board prior to the December 2024 IESBA meeting. The additions to the draft Basis for Conclusions (BfC) in Agenda Item 2-B, that were requested by Board Members, are shown in grey boxes in the document. These will be included in the version of the BfC the Board considers on Thursday.

Workstream 1's proposed substantive changes to the IIS and the relevant text in the draft BfC are with respect to:

- The guidance on the meaning of “performing assurance work at a component” in paragraph 5405.2 A3 (from pages 18 to 20)
- The requirements and application material applicable to assurance work performed at a value chain component by a group sustainability assurance firm of a component practitioner in Sub-section B of Section 5405 (from pages 28 to 34)
- Determination of a group component (on page 119)
- Deferral to the effective date (on page 139)

The proposed changes to the other sections of the International Standards for Sustainability Assurance (IESSA) are presented in Agenda Item 2-A.2 by WS2.

INTERNATIONAL INDEPENDENCE STANDARDS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

SECTION 5400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

General

5400.1 It is in the public interest and required by the Code that sustainability assurance practitioners be independent when performing sustainability assurance engagements.

[Paragraph 5400.2 is intentionally left blank]

5400.3 In the International Independence Standards in this Part, the term “sustainability assurance practitioner” refers to individuals conducting sustainability assurance engagements or, as applicable, their firms.

5400.[3a2](#) The International Independence Standards in this Part apply to both reasonable assurance and limited assurance sustainability assurance engagements. In this Part, references are

made to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references mean a firm expressing a conclusion on the sustainability information.

Scope of the International Independence Standards in Part 5

5400.3ba The International Independence Standards in this Part only apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:

- (a) Is reported in accordance with a general purpose framework; and
- (b) Is
 - (i) Required to be provided in accordance with law or regulation; or
 - (ii) Publicly disclosed to support decision-making by investors or other users.

5400.3cb Law or regulation might also require the application of the International Independence Standards in Part 5 to sustainability assurance engagements other than those described in paragraph 5400.3a.

5400.3d An assurance engagement might be either an attestation engagement or a direct engagement. The International Independence Standards in this Part cover only sustainability assurance engagements that are attestation engagements.

5400.3e Part 4B of the Code sets out International Independence Standards for other sustainability assurance engagements that are not within the scope of the International Independence Standards in this Part. These include, for example:

- A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported solely in accordance with:
 - A framework designed to meet the information needs of specified users; or
 - Entity-developed criteria.
- A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

Quality Management

5400.3f Quality management within firms that perform sustainability assurance engagements is an integral part of high-quality sustainability assurance engagements. Sustainability assurance standards are based on an expectation that the sustainability assurance practitioner has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For example, ISSA 5000 requires compliance with ISQM 1 or [professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be other legal, regulatory or professional requirements that are at least as demanding as ISQM 1.](#)

5400.4 Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management might require the firm to

address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of the International Independence Standards in this Part do not prescribe the specific responsibilities of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference.

5400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or a sustainability assurance team member's, integrity, objectivity, or professional skepticism has been compromised.

In the International Independence Standards in this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

5400.6 When performing sustainability assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 5120 applies to independence as it does to the fundamental principles set out in Section 5110. Section 5405 sets out specific requirements and application material applicable in a group sustainability assurance engagement.

5400.7 The International Independence Standards in this Part describe:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Engagement Team and Sustainability Assurance Team

5400.8 The International Independence Standards in this Part apply to all sustainability assurance team members, including engagement team members.

5400.9 An engagement team for a sustainability assurance engagement includes all leaders and staff in the firm who perform assurance procedures on the engagement, and any other individuals who perform such procedures who are from within or outside the firm's network.

[Paragraph 5400.10 is intentionally left blank]

5400.10a If the firm intends to use the assurance work of another sustainability assurance practitioner and the firm is able to be ~~appropriately and~~ sufficiently ~~and appropriately~~ involved in the practitioner's work, that practitioner is a member of the engagement team. For example, an individual from a component practitioner who performs assurance procedures on the sustainability information of a component for purposes of a group sustainability assurance engagement is a member of the engagement team for the group sustainability assurance engagement.

5400.11 Sustainability assurance engagements might be performed on a wide range of sustainability matters that require specialized skills and knowledge beyond those possessed by the engagement team. A sustainability assurance engagement might therefore involve experts within, or engaged by, the firm, a network firm, or a component practitioner who assist in the engagement. Depending on the role of the individuals, they might be engagement team or sustainability assurance team members. For example:

- Individuals with expertise in a specialized area of sustainability reporting or assurance who perform assurance procedures are engagement team members. These include, for example, individuals with expertise in the measurement of specific sustainability matters or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
- Individuals within, or engaged by, the firm who have direct influence over the outcome of the sustainability assurance engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are sustainability assurance team members but not engagement team members.

However, individuals who are external experts are neither engagement team nor sustainability assurance team members. [Ref.: Section 5390]

5400.12 If the sustainability assurance engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are sustainability assurance team members but not engagement team members.

Involvement of Another Practitioner in a Sustainability Assurance Engagement

5400.12a In performing a sustainability assurance engagement, a firm might intend to use the assurance work of another sustainability assurance practitioner but is not able to be sufficiently and appropriately involved in that work. For example:

- The sustainability assurance client might have chosen to engage the other practitioner in relation to certain sustainability information and that other practitioner might already have completed its engagement, or might be unable to cooperate with the firm because there are restrictions on access to information or people due to law, regulation or other conditions.
- The work might be performed at a value chain component.

5400.12b When the firm intends to use the assurance work of another sustainability assurance practitioner but is not able to be sufficiently and appropriately involved in the work, that other sustainability assurance practitioner is "another practitioner" for the purposes of this Part. The individuals from another practitioner are not members of the engagement team. Section 5406 of this Part sets out specific requirements and application material when a firm intends to use

the assurance work of another practitioner.

Public Interest Entities

- 5400.13 Some of the requirements and application material set out in this Part are applicable only to the sustainability assurance engagements of public interest entities. An entity is a public interest entity in this Part 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.
- 5400.13a A firm performing the audit of an entity's financial statements might decide to voluntarily treat the entity as a public interest entity. In such circumstances, this does not mean that another firm performing a sustainability assurance engagement for that entity is required to treat that entity as a public interest entity for the purposes of the sustainability assurance engagement.
- 5400.13b Laws and regulations might also determine an entity to be a public interest entity for the purposes of a sustainability assurance engagement.

[Paragraph 5400.14 is intentionally left blank]

- 5400.15 Stakeholders have heightened expectations regarding the independence of a firm performing a sustainability assurance engagement for a public interest entity. The purpose of the requirements and application material for public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's sustainability information that can be used for their decision-making purposes.

[Paragraph 5400.16 is intentionally left blank]

Firms Performing Both Audit and Sustainability Assurance Engagements

- 5400.16a Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both a sustainability assurance engagement and an audit or review engagement for the same client, the provisions in the Code applicable to audit and review engagements, including Part 4A, and this Part apply to the firm, a network firm and the audit team members.

[Paragraph 5400.17 is intentionally left blank]

Requirements and Application Material

General

- R5400.18** A firm performing a sustainability assurance engagement shall be independent.
- R5400.19** A firm shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to a sustainability assurance engagement.

Prohibition on Assuming Management Responsibilities

- R5400.20** A firm or a network firm shall not assume a management responsibility for a sustainability assurance client.
- 5400.20 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 5400.20 A2 When a firm or a network firm assumes a management responsibility for a sustainability

assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

5400.20 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction, for example, setting sustainability policies and goals.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - Developing criteria used by the client for reporting sustainability information.
 - The preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework, including identifying material sustainability matters to be reported.
 - Designing, implementing, monitoring or maintaining internal control.
 - Supply chain management.
 - Designing or implementing software to collect or produce sustainability data for the client.
 - Reporting on environmental credits or offsets.
 - Resource allocation for sustainability initiatives.
- Controlling or managing bank accounts or investments.

5400.20 A4 Subject to compliance with paragraph R5400.21, providing advice and recommendations to assist the management of a sustainability assurance client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to a sustainability assurance client might create a self-review threat and is addressed in Section 5600.

R5400.21 When performing a professional activity for a sustainability assurance client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the activities; and
- (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

5400.21 A1 When technology is used in performing a professional activity for a sustainability assurance client, the requirements in paragraphs R5400.20 and R5400.21 apply regardless of the nature or extent of such use of the technology.

Public Interest Entities

[Paragraphs R5400.22 to 5400.24 A1 are intentionally left blank]

R5400.25 Subject to paragraph R5400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 5400.13 in performing a sustainability assurance engagement, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

R5400.26 As an exception to paragraph R5400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R5400.27 As defined, a sustainability assurance client that is a publicly traded entity includes all of its related entities. For all other entities, references to a sustainability assurance client in this Part include related entities over which the client has direct or indirect control. When the sustainability assurance team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the sustainability assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 5400.28 to 5400.29 are intentionally left blank]

Period During which Independence is Required

R5400.30 Independence, as required by the International Independence Standards in this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The reporting period for the engagement.

5400.30 A1 The engagement period starts when the engagement team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.

5400.30 A2 The reporting period for the engagement might be the same as the period covered by the financial statements. The reporting period for the engagement does not refer to the period covered by the sustainability information from the start of historical information to the end of any forward-looking information.

R5400.31 If an entity becomes a sustainability assurance client during or after the reporting period for the engagement, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the sustainability assurance client during or after the reporting period for the engagement but before accepting the sustainability assurance engagement; or
- (b) Previous services provided to the sustainability assurance client by the firm or a network firm.

5400.31 A1 Threats to independence are created if a non-assurance service was provided to a sustainability assurance client during, or after the reporting period for the engagement, but before the engagement team begins to perform the sustainability assurance engagement, and the service would not be permitted during the engagement period.

5400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting.

5400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the sustainability assurance work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

5400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the sustainability assurance engagement period or prior to the reporting period for the engagement is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period for which a sustainability assurance engagement has been undertaken by another firm.

Sustainability Assurance Clients that are Public Interest Entities

R5400.32 A firm shall not accept appointment to perform a sustainability assurance engagement for a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the sustainability information on which the firm will express an opinion unless:

- (a) The provision of such service ceases before the commencement of the sustainability assurance engagement period;

- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

5400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment to perform a sustainability assurance engagement to that entity include:

- The results of the service had been subject to sustainability assurance procedures in the course of the sustainability assurance engagement of the prior period's sustainability information by a predecessor firm.
- The firm engages a practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a review of the first sustainability assurance engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,
 to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 5400.33 to 5400.39 are intentionally left blank]

Communication with those Charged with Governance

5400.40 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

5400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

[Paragraphs 5400.41 to 5400.49 are intentionally left blank]

Network Firms

5400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to

provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

R5400.51 A network firm shall be independent of the sustainability assurance clients of the other firms within the network as required by this Part.

5400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R5400.52 When associated with a larger structure of other firms and entities, a firm shall:

- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgment consistently throughout such a larger structure.

R5400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 5400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 5400.53 A3);
- (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 5400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 5400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 5400.53 A6, 5400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 5400.53 A8, 5400.53 A9).

5400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R5400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

5400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of sustainability assurance methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R5400.53(a)).

- 5400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R5400.53(b)).
- 5400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R5400.53(c)).
- 5400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R5400.53(d)).
- 5400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a leader of the firm signs a sustainability assurance report. (Ref: Para. R5400.53(e)).
- 5400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R5400.53(e)).
- 5400.53 A8 Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records.
 - Leaders and other personnel.
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
 - Sustainability assurance methodology or sustainability assurance manuals.
 - Training courses and facilities. (Ref: Para. R5400.53(f)).
- 5400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:
- The shared resources might be limited to common sustainability assurance methodology or sustainability assurance manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.
 - The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R5400.53(f)).
- R5400.54** If a firm or a network sells a part of its practice, and that part continues to use wholly or partly the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

5400.54 A1 The agreement for the sale of a part of a practice might provide that, for a limited period of time, that part can continue to use wholly or partly the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 5400.55 to 5400.59 are intentionally left blank]

General Documentation of Independence for Sustainability Assurance Engagements

R5400.60 A firm shall document conclusions regarding compliance with the International Independence Standards in this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

5400.60 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with the International Independence Standards in this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 5400.61 to 5400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

5400.70 A1 An entity might become a related entity of a sustainability assurance client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue a sustainability assurance engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R5400.71 In the circumstances set out in paragraph 5400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the sustainability assurance engagement after the effective date of the merger or acquisition; and
- (b) Subject to paragraph R5400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R5400.72 As an exception to paragraph R5400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the

level of the threat.

5400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

5400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

R5400.73 If, following the discussion set out in paragraph R5400.72(b), those charged with governance request the firm to continue the sustainability assurance engagement, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 5600 and its subsections, will not be a member of the engagement team for the sustainability assurance engagement or the individual responsible for the engagement quality review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

5400.73 A1 Examples of such transitional measures include:

- Having a sustainability assurance practitioner review the sustainability assurance or non-assurance work as appropriate.
- Having a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R5400.74 The firm might have completed a significant amount of work on the sustainability assurance engagement prior to the effective date of the merger or acquisition and might be able to complete the remaining assurance procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the sustainability assurance engagement while continuing with an interest or relationship identified in paragraph 5400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;

- (b) Complies with the requirements of paragraph R5400.73(b) to (c); and
- (c) Ceases to perform the sustainability assurance engagement no later than the date that the sustainability assurance report is issued.

If Objectivity Remains Compromised

R5400.75 Even if all the requirements of paragraphs R5400.71 to R5400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 5400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to perform the sustainability assurance engagement.

Documentation

R5400.76 The firm shall document:

- (a) Any interests or relationships identified in paragraph 5400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 5400.77 to 5400.79 are intentionally left blank.]

Breach of an Independence Provision for Sustainability Assurance Engagements

When a Firm Identifies a Breach

R5400.80 If a firm concludes that a breach of an independence requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
 - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement leader;
 - (ii) The individual with operational responsibility for compliance with independence requirements;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements in Part 5 who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability

to issue a sustainability assurance report; and

(e) Depending on the significance of the breach, determine:

- (i) Whether to end the sustainability assurance engagement; or
- (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue a sustainability assurance report.

5400.80 A1 A breach of an independence provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the sustainability assurance engagement because of the breach.

5400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue a sustainability assurance report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current sustainability assurance engagement.
- Whether a sustainability assurance team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is a sustainability assurance team member or another individual for whom there are independence requirements.
- If the breach relates to a sustainability assurance team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the records underlying, or data comprising, the sustainability information on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

5400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the sustainability assurance team.
- Using different individuals to conduct an additional review of the affected assurance work or to re-perform that work to the extent necessary.
- Recommending that the sustainability assurance client engage another firm to review or re-perform the affected assurance work to the extent necessary.
- If the breach relates to a non-assurance service that affects the records underlying, or data comprising, the sustainability information on which the firm will express an opinion, engaging another firm to evaluate the results of the non-assurance service or having

another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R5400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the sustainability assurance engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R5400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue a sustainability assurance report;
- (d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

5400.83 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

R5400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R5400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of:
 - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
 - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R5400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R5400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the sustainability assurance engagement in accordance with paragraph R5400.81.

Breaches Before the Previous Sustainability Assurance Report Was Issued

R5400.86 If the breach occurred prior to the issuance of the previous sustainability assurance report, the firm shall comply with the independence provisions of this Part in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue a sustainability assurance report in the current period.

R5400.87 The firm shall also:

- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued sustainability assurance reports, and the possibility of withdrawing such reports; and
- (b) Discuss the matter with those charged with governance.

Documentation

R5400.88 In complying with the requirements in paragraphs R5400.80 to R5400.87, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional or regulatory body or oversight authority.

R5400.89 If the firm continues with the sustainability assurance engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue a sustainability assurance report.

SECTION 5405

GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

- 5405.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group sustainability assurance engagement.

Requirements and Application Material

General

- 5405.2 A1 Depending on the sustainability reporting framework, the firm might express an opinion on group sustainability information that includes information about components required to be included in the group financial statements (group components). The applicable sustainability reporting framework might also require the sustainability information to be extended to include information from other entities (for example, value chain components). Such sustainability information, including information from the value chain, constitutes group sustainability information for the purposes of this Part.
- 5405.2 A1a The firm might perform assurance work, or use the assurance work of another sustainability assurance practitioner performed, at the sustainability assurance client or at a value chain component, for purposes of the group sustainability assurance engagement. That other sustainability assurance practitioner is a component practitioner where the group sustainability assurance firm is able to be sufficiently and appropriately involved in the assurance work of that other practitioner.
- 5405.2 A1b Subsection A below sets out independence requirements and application material that are applicable to the group sustainability assurance firm, component practitioners and members of the group sustainability assurance team when assurance work is performed at a group sustainability assurance client or a group component.
- 5405.2 A1c Subsection B below sets out independence requirements and application material that are applicable to when the group sustainability assurance firm, or a component practitioners and members of the group sustainability assurance team when assurance work is performed performs assurance work at a value chain component for purposes of the group sustainability assurance engagement.
- 5405.2 A1 Where the group sustainability assurance firm intends to use the assurance work of another practitioner for purposes of the group sustainability assurance engagement and the group sustainability assurance firm is unable to be sufficiently and appropriately involved in the assurance work of that practitioner, Section 5406 applies.
- 5405.2 A2 A component practitioner that participates in a group sustainability assurance engagement might separately issue an assurance opinion on the sustainability information of the component. Depending on the circumstances, the component practitioner might need to comply with different independence requirements when performing assurance work for a group sustainability assurance engagement and separately issuing an assurance opinion on the sustainability information of the component for statutory, regulatory or other reasons.
- 5405.2 A3 This section sets out independence requirements applicable when the group sustainability

assurance firm or a component practitioner performs assurance work at a component. These requirements apply when the group sustainability assurance firm ~~or component practitioner~~ has determined that, to obtain evidence for purposes of the group sustainability assurance engagement, ~~it is necessary to perform~~ assurance procedures need to be performed on the ~~underlying~~ data or information maintained by the component which underlies and that forms part of, or is used to prepare, the component's sustainability information. This means, ~~for example,~~ that:

- If the group sustainability assurance firm ~~In the limited circumstance where or a component practitioner is involved in engaged to perform assurance work with respect to a value chain component and~~ performing assurance procedures on the underlying data or information maintained by the component to identify and assess or to respond to risks of material misstatement of the component's sustainability information, the group sustainability assurance firm or the component practitioner is subject to the independence requirements in this section with respect to that component.
- If the group sustainability assurance firm performs planning procedures at the group level to determine whether an entity or a business unit is a value chain component at which assurance work will be performed for purposes of the group sustainability assurance engagement, the group sustainability assurance firm is not subject to the independence requirements in this section with respect to that entity or business unit.
- If the group sustainability assurance firm obtains evidence about a value chain component's sustainability information without performing procedures on the underlying data or information maintained by the component ~~determines to perform assurance procedures on the data or information underlying a value chain component's sustainability information and such data or information is maintained or otherwise available at the group level,~~ the group sustainability assurance firm is not subject to the independence requirements in this section with respect to that component.

Addition to Basis for Conclusions

(to be added after paragraph 94 in Agenda Item 2-B)

The guidance in paragraph 5405.2 A3 clarifies that the requirements and application material applicable to value chain components in the IIS in Part 5 only apply when the group sustainability assurance firm has already determined that an entity or a business unit is a value chain component (VCC) for purposes of the group sustainability assurance engagements. Consequently, performing planning procedures at the group level solely to determine whether an entity or a business unit is a value chain component at which assurance work will be performed will not constitute assurance work for purposes of the IESSA.

If the group sustainability assurance firm has determined that, to obtain evidence for purposes of the group sustainability assurance engagement, it is necessary to perform procedures on the underlying data or information *maintained by the VCC* [emphasis added], and the group sustainability assurance firm or a component practitioner has the ability to do that, the group sustainability assurance firm or the component practitioner is subject to the independence requirements in the IIS in Part 5.

However, if the group sustainability assurance firm obtains evidence *without* performing procedures on the underlying data or information maintained by the VCC, the group sustainability assurance firm is not required to be independent of that component. For example, if the group sustainability assurance firm determines to perform procedures on the component's sustainability information at the group level and

not at the component level, the group sustainability assurance firm is not subject to the independence requirements in the IESSA with respect to that component. Such an approach might be driven by not being able to gain access to the *underlying* data or information maintained by the component and that forms part of, or is used to prepare, the component's sustainability information.

Communication Between a Group Sustainability Assurance Firm and a Component Practitioner

- R5405.3** The group engagement leader shall take responsibility to make a component practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable given the nature and the circumstances of the group sustainability assurance engagement. When making the component practitioner aware of the relevant ethics, including independence, provisions, the group sustainability assurance firm shall communicate at appropriate times the necessary information to enable the component practitioner to meet its responsibilities under this section.
- 5405.3 A1 Examples of matters the group sustainability assurance firm might communicate include:
- Whether the group sustainability assurance client is a public interest entity and the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement.
 - The related entities and other group components within the group sustainability assurance client that are relevant to the independence considerations applicable to the component practitioner and the group sustainability assurance team members within, or engaged by, that practitioner.
 - The period during which the component practitioner is required to be independent.
 - Whether a sustainability assurance leader who performs work at a group component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement.
- R5405.4** The group engagement leader shall take responsibility for requesting the component practitioner to confirm whether it understands and will comply with the relevant provisions of this Part that apply to the group sustainability assurance engagement. The group engagement leader shall also request the component practitioner to communicate:
- (a) Any independence matters that require significant judgment; and
 - (b) In relation to those matters, the component practitioner's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.
- R5405a** If a matter comes to the attention of the group engagement leader that indicates that a threat to independence exists, the group engagement leader shall evaluate the threat and take appropriate action.

A – Requirements and Application Material When Assurance Work is Performed at a Group Sustainability Assurance Client or a Group Component

Independence Considerations Applicable to Individuals

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm and Its Network Firms

R5405.5 Members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm and its network firms shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

Other Members of the Group Sustainability Assurance Team

R5405.6 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a group component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, that component practitioner shall be independent of:

- (a) The group component;
- (b) The entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and
- (c) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the group component,

in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

R5405.7 In relation to related entities or other group components within the group sustainability assurance client other than those covered in paragraph R5405.6, if a component practitioner outside the group sustainability assurance firm's network performs assurance work at a group component for purposes of the group sustainability assurance engagement, a member of the group sustainability assurance team within, or engaged by, that component practitioner shall notify the component practitioner about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence in the context of the group sustainability assurance engagement.

5405.7A1 Examples of relationships or circumstances involving the individual or any of the individual's immediate family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R5405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group sustainability assurance client if the group sustainability assurance client is material to that entity (see Section 5510).
- A loan or guarantee involving: (see Section 5511)
 - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
 - A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- A business relationship that is significant or involves a material financial interest (see Section 5520).
- An immediate family member who is: (see Section 5521)
 - A director or officer of an entity; or

- An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.
- The individual serving as, or having recently served as: (see Section 5522 and Section 5523)
 - A director or officer of an entity; or
 - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.

R5405.8 Upon receiving the notification as set out in paragraph R5405.7, the component practitioner shall evaluate and address any threats to independence created by the individual's relationship or circumstance.

Independence Considerations Applicable to a Group Sustainability Assurance Firm

R5405.9 A group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Sustainability Assurance Firm

R5405.10 A network firm of the group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a network firm.

Independence Considerations Applicable to Component Practitioners outside a Group Sustainability Assurance Firm's Network

All Group Sustainability Assurance Clients

R5405.11 A component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, shall:

- (a) Be independent of the group component in accordance with the requirements of this Part that are applicable to a firm with respect to all sustainability assurance clients;
- (b) Apply the relevant requirements in paragraphs R5510.4(a), R5510.7 and R5510.9 with respect to financial interests in the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and
- (c) Apply the relevant requirements in Section 5511 with respect to loans and guarantees involving the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion.

R5405.12 When a component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, knows, or has reason to believe, that a relationship or circumstance involving the group sustainability assurance client, beyond those addressed in paragraph R5405.11(b) and (c), is relevant to the evaluation of the component practitioner's independence from the group component, the component practitioner shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R5405.13 When a component practitioner outside the group sustainability assurance firm's network,

performing assurance work at a group component, knows, or has reason to believe, that a relationship or circumstance of a firm within the component practitioner's network with the group component or the group sustainability assurance client creates a threat to the component practitioner's independence, the component practitioner shall evaluate and address any such threat.

[Paragraph 5405.14 A1 is intentionally left blank]

Group Sustainability Assurance Clients that are Not Public Interest Entities

R5405.15 When the group sustainability assurance client is not a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a group component, for purposes of the group sustainability assurance engagement, shall be independent of the group component in accordance with the requirements set out in this Part that are applicable to sustainability assurance clients that are not public interest entities.

5405.15 A1 Where a component practitioner outside the group sustainability assurance firm's network also performs a sustainability assurance engagement for a group component that is a public interest entity for reasons other than the group sustainability assurance engagement, for example, a statutory sustainability assurance engagement, the independence requirements that are relevant to sustainability assurance clients that are public interest entities apply to that engagement.

Group Sustainability Assurance Clients that are Public Interest Entities

Non-Assurance Services

R5405.16 Subject to paragraph R5405.17, when the group sustainability assurance client is a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a group component shall comply with the provisions in Section 5600 that are applicable to public interest entities with respect to the provision of non-assurance services to the group component.

5405.16 A1 Where the group sustainability assurance client is a public interest entity and the group component at which assurance work is performed is not a public interest entity, the component practitioner outside the group sustainability assurance firm's network performing assurance work at that group component is prohibited from, for example:

- Providing to the group component, sustainability data and information services that might affect the sustainability information on which the component practitioner will perform assurance work (see Subsection 5601).
- Designing the information technology system, or an aspect of it, for the group component where such information technology system generates information for the group component's sustainability information, or the sustainability records underlying that information, on which the component practitioner will perform assurance work (see Subsection 5606).
- Acting in an advocacy role for the group component in resolving a dispute or litigation before a tribunal or court (see Subsection 5608).

5405.16 A2 The sustainability information on which a component practitioner outside the group sustainability assurance firm's network performs assurance procedures is relevant to the evaluation of the self-review threat that might be created by the component practitioner's

provision of a non-assurance service, and therefore the application of Section 5600. For example, if the component practitioner's assurance procedures are limited to a specific item such as greenhouse gas emissions, the results of any non-assurance service that form part of or affect the sustainability records or the sustainability information related to the reporting on, or the internal controls over, greenhouse gas emissions are relevant to the evaluation of the self-review threat.

R5405.17 As an exception to paragraph R5405.16, a component practitioner outside the group sustainability assurance firm's network may provide a non-assurance service that is not prohibited under Section 5600 to a group component without communicating information about the proposed non-assurance service to those charged with governance of the group sustainability assurance client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R5600.224 to R5600.254.

Key Sustainability Assurance Leaders

R5405.18 The group engagement leader shall determine whether a sustainability assurance leader who performs assurance work at a group component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement. If so, the group engagement leader shall:

- (a) Communicate that determination to that individual; and
- (b) Indicate:
 - (i) In the case of all group sustainability assurance clients, that the individual is subject to paragraph R5411.4; and
 - (ii) In the case of group sustainability assurance clients that are public interest entities, that the individual is also subject to paragraphs R5524.6, R5540.5(c) and R5540.20.

5405.18 A1 A key sustainability assurance leader makes key decisions or judgments on significant matters with respect to the group sustainability information on which the group sustainability assurance firm expresses an opinion in the group sustainability assurance engagement.

Changes in Group Components

R5405.19 When an entity that is not a related entity becomes a group component within the group sustainability assurance client, the group sustainability assurance firm shall apply the requirements in paragraphs R5400.71 to R5400.76 with respect to the change regarding the group component for purposes of the sustainability assurance engagement.

Changes in Component Practitioners that Perform Assurance Work at Group Components

All Group Sustainability Assurance Clients

5405.20 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component practitioner at a group component during or after the reporting period for the engagement, for example, due to a client merger or acquisition. A threat to the component practitioner's independence might be created by:

- (a) Financial or business relationships of the component practitioner with the group component during or after the reporting period for the engagement but before the component practitioner agrees to perform the assurance work; or

(b) Previous services provided to the group component by the component practitioner.

5405.20 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the group component during or after the reporting period for the engagement, but before the component practitioner begins to perform the assurance work for purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.20 A3 Paragraph 5400.31 A4 sets out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the group component prior to the reporting period for the engagement.

Group Sustainability Assurance Clients that are Public Interest Entities

5405.21 A1 Paragraphs R5400.32 and 5400.32 A1 are applicable when a component practitioner agrees to perform assurance work for group sustainability assurance purposes in relation to a group sustainability assurance client that is a public interest entity if the component practitioner has previously provided a non-assurance service to the group component.

5405.21 A2 Paragraphs R5600.25 and 5600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component practitioner to a group component when the group sustainability assurance client subsequently becomes a public interest entity.

Breach of an Independence Provision at a Component Practitioner

5405.22 A1 A breach of a provision of this section might occur despite a component practitioner having a system of quality management designed to address independence requirements. Paragraphs R5405.23 to R5405.29 are relevant to a group sustainability assurance firm's determination as to whether it would be able to use a component practitioner's work if a breach has occurred at the component practitioner.

5405.22 A2 In the case of a breach at a component practitioner within the group sustainability assurance firm's network, paragraphs R5400.80 to R5400.89 also apply to the group sustainability assurance firm in relation to the group sustainability assurance engagement, as applicable.

When a Component Practitioner Identifies a Breach

R5405.23 If a component practitioner concludes that a breach of this section has occurred, the component practitioner shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Evaluate the significance of the breach and its impact on the component practitioner's objectivity and ability to perform assurance work for purposes of the group sustainability assurance engagement;
- (c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and
- (d) Promptly communicate in writing the breach to the group engagement leader, including the component practitioner's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

5405.23 A1 Paragraphs 5400.80 A2 and A3 set out application material relevant to the component practitioner's evaluation of the significance and impact of the breach on the component practitioner's objectivity and ability to issue an opinion or conclusion on the assurance work performed at the group component for purposes of the group sustainability assurance engagement, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

R5405.24 Upon receipt of the component practitioner's communication of the breach, the group engagement leader shall:

- (a) Review the component practitioner's assessment of the significance of the breach and its impact on the component practitioner's objectivity, and any action that can be or has been taken to address the consequences of the breach;
- (b) Evaluate the group sustainability assurance firm's ability to use the work of the component practitioner for purposes of the group sustainability assurance engagement; and
- (c) Determine the need for any further action.

R5405.25 In applying paragraph R5405.24, the group engagement leader shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component practitioner's objectivity is compromised and, therefore, the group sustainability assurance firm is unable to use the work of the component practitioner for purposes of the group sustainability assurance engagement.

5405.25 A1 If the group engagement leader determines that the consequences of the breach have been satisfactorily addressed by the component practitioner and do not compromise the component practitioner's objectivity, the group sustainability assurance firm may continue to use the work of the component practitioner for the group sustainability assurance engagement. In certain circumstances, the group engagement leader might determine that additional actions are needed to satisfactorily address the breach in order to use the component practitioner's work. Examples of such action include the group sustainability assurance firm performing specific procedures on the areas impacted by the breach or requesting the component practitioner to perform appropriate remedial work on the affected areas.

5405.25 A2 If there has been a breach by a component practitioner and the breach has not been satisfactorily addressed, the group sustainability assurance firm cannot use the work of that component practitioner. In those circumstances, the group engagement leader might find other means to obtain the necessary assurance evidence on the group component's sustainability information. Examples of such means include the group sustainability assurance firm performing the necessary assurance work at the group component or requesting another component practitioner to perform such assurance work.

Discussion with Those Charged with Governance of the Group Sustainability Assurance Client

5405.26 A1 With respect to breaches by a component practitioner within the group sustainability assurance firm's network, paragraph R5400.84 applies.

R5405.27 With respect to breaches by a component practitioner outside the group sustainability assurance firm's network, the group sustainability assurance firm shall discuss with those charged with governance of the group sustainability assurance client:

- (a) The component practitioner's assessment of the significance and impact of the breach

on the component practitioner's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and

(b) Whether

- (i)** The action will satisfactorily address, or has addressed, the consequences of the breach; or
- (ii)** The group sustainability assurance firm will use other means to obtain the necessary assurance evidence on the group component's sustainability information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

R5405.28 The group sustainability assurance firm shall communicate in writing to those charged with governance of the group sustainability assurance client all matters discussed in accordance with paragraph R5405.27 and obtain the concurrence of those charged with governance that the action can be or has been taken to satisfactorily address the consequences of the breach.

R5405.29 If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component practitioner, the group sustainability assurance firm shall not use the work performed by the component practitioner for purposes of the group sustainability assurance engagement.

B – Requirements and Application Material When Assurance Work is Performed at a Value Chain Component

Addition to the Basis for Conclusions

(...)

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.) *(Current paragraph 96 in Agenda Item 2-B.)*

Furthermore, the IESBA agreed to the following amendments and clarifications on Subsection B of Section 5405 to promote the broad adoption and implementation and the consistent application of the independence requirements:

- If the group sustainability assurance firm or a component practitioner performs assurance work at a VCC for purposes of the group sustainability assurance engagements, the firm or the component practitioner needs to comply with the provisions in Part 5 applicable to a client that is not a PIE, irrespective of whether or not the group sustainability assurance client is a PIE. (See application material A1 to paragraphs R5405.30A to R5405.34.)
- If a component practitioner within the group sustainability assurance firm's network performs the assurance work at a VCC for purposes of a group sustainability assurance engagement, Subsection B in Section 5405 only requires that the component practitioner and the group sustainability assurance team members from, or engaged by, that component practitioner to be independent from the VCC. Accordingly, the group sustainability assurance firm or any other network firms, and members of the group sustainability assurance team members from, or engaged by, these firms are not required to be independent from the VCC. The same applies to a component practitioner outside the group sustainability assurance firm's network. (See application material A2 to paragraphs R5405.30A to R5405.34.)
- If it is a component practitioner outside the group sustainability assurance firm's network that performs assurance work at a VCC for purposes of the group sustainability assurance engagements, the IESSA does not set out specific independence considerations for the network firms from that component practitioner's network.

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. *(Current paragraph 97 in Agenda Item 2-B.)*

Independence Considerations Applicable to Individuals

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm ~~and Its Network Firms~~

R5405.30A If a group sustainability assurance firm performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm shall be independent of that value chain component in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

5405.30A A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm performing assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~ are not required to comply with the provisions that are applicable to public interest entities.

5405.30A A2 If the group sustainability assurance firm performs assurance work at a value chain component, group sustainability assurance team members from, or engaged by, firms within the group sustainability assurance firm's network are not subject to the independence requirements of this Part with respect to that value chain component.

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Component Practitioner Within the Group Sustainability Assurance Firm's Network

R5405.30B If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, the component practitioner shall be independent of that value chain component in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

5405.30B A1 When the group sustainability assurance client is a public interest entity, group sustainability assurance team members from the component practitioner within the group sustainability assurance firm's network performing assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~ are not required to comply with the provisions that are applicable to public interest entities.

5405.30B A2 If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component, group sustainability assurance team members from, or engaged by, the group sustainability assurance firm or other network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Other Members of the Group Sustainability Assurance Team

R5405.31 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, that component practitioner shall be independent of the value chain component in accordance with the requirements of this Part that are applicable to a sustainability assurance team.

5405.31 A1 When the group sustainability assurance client is a public interest entity, group sustainability assurance team members from the component practitioner outside the group sustainability

assurance firm's network performing assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~ are not required to comply with the provisions that are applicable to public interest entities.

5405.31 A2 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a value chain component, group sustainability assurance team members from, or engaged by, the group sustainability assurance firm or ~~other its network firms are not subject to the independence requirements of this Part with respect to that value chain component.~~

Independence Considerations Applicable to a Group Sustainability Assurance Firm

R5405.32 A group sustainability assurance firm shall be independent of a value chain component at which the group sustainability assurance firm performs assurance work for purposes of the group sustainability assurance engagement, in accordance with the requirements of this Part that are applicable to a firm.

5405.32 A1 When the group sustainability assurance client is a public interest entity, the group sustainability assurance firm performing assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~ is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.

5405.32 A2 If the group sustainability assurance firm performs assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~, network firms of the group sustainability assurance firm are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to Component Practitioners Within the Network Firms of a Group Sustainability Assurance Firm's Network

R5405.33 A ~~component practitioner within network firm of~~ the group sustainability assurance firm's ~~network~~ shall be independent of a value chain component at which the ~~network firm component practitioner~~ performs assurance work for purposes of the group sustainability assurance engagement, in accordance with the requirements of this Part that are applicable to a firm.

5405.33 A1 When the group sustainability assurance client is a public interest entity, a ~~component practitioner within network firm of~~ the group sustainability assurance firm's ~~network~~ performing assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~ is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.

5405.33 A2 If a ~~component practitioner within network firm of~~ the group sustainability assurance firm's ~~network~~ performs assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~, the group sustainability assurance firm and other network firms ~~of the group sustainability assurance firm~~ are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to Component Practitioners outside a Group Sustainability Assurance Firm's Network

R5405.34 A component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component for purposes of the group

sustainability assurance engagement shall be independent of the value chain component in accordance with the requirements of this Part that are applicable to a firm.

5405.34 A1 When the group sustainability assurance client is a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~ is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.

5405.34 A2 If a component practitioner outside a group sustainability assurance firm's network performs assurance work at a value chain component ~~for purposes of the group sustainability assurance engagement~~, the group sustainability assurance firm and ~~any of~~ its network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Changes in Value Chain Components

R5405.35 When an entity becomes a value chain component during the reporting period for the engagement and the group sustainability assurance firm performs assurance work at the value chain component for purposes of the group sustainability assurance engagement, the group sustainability assurance firm shall apply paragraph R5400.31 with respect to the change regarding the value chain component.

Changes in Component Practitioners that Perform Assurance Work at Value Chain Components

5405.36 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component practitioner at a value chain component during or after the reporting period for the engagement. A threat to the component practitioner's independence might be created by:

- (a) Financial or business relationships of the component practitioner with the value chain component during or after the reporting period for the engagement but before the component practitioner agrees to perform the assurance work; or
- (b) Previous services provided to the value chain component by the component practitioner.

5405.36 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the value chain component during or after the reporting period for the engagement, but before the component practitioner begins to perform the assurance work for purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.36 A3 Paragraph 5400.31 A4 sets out application material that is applicable to a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the value chain component prior to the reporting period for the engagement.

Breach of an Independence Provision at a Component Practitioner

R5405.37 If a component practitioner performing assurance work at a value chain component concludes that a breach of this section has occurred, the group sustainability assurance firm

and the component practitioner shall apply, with respect to the value chain component, paragraphs 5405.22 A1 to R5405.29 of subsection A applicable to a group component.

SECTION 5406

ANOTHER PRACTITIONER WHOSE ASSURANCE WORK IS USED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT

Introduction

- 5406.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when a firm intends to use the assurance work of another sustainability assurance practitioner performed at the firm's sustainability assurance client or a value chain component, and the firm is unable to be sufficiently and appropriately involved in that assurance work. Such a practitioner is referred to in this section as "another practitioner." The individuals from another practitioner are not members of the engagement team.
- 5406.2 This section does not apply if the firm intends to use non-assurance work performed by another practitioner at the firm's sustainability assurance client or a value chain component. In such circumstances, the requirement in paragraph R5300.11 applies.

Requirements and Application Material

General

- 5406.3 A1 The sustainability information, prepared on a standalone or group basis, might include information that has been or will be assured by another practitioner. Examples of such circumstance are where the client chooses to engage another practitioner in relation to certain sustainability information, or where another practitioner performs assurance work at a value chain component.
- 5406.3A2 As a firm may use the work of another practitioner for standalone or group sustainability assurance engagements, the references in this section to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and sustainability assurance client also mean group sustainability assurance firm, group engagement leader, group sustainability assurance engagement, group sustainability assurance team and group sustainability assurance client, as applicable.

Using the Assurance Work of Another Practitioner Related to a Sustainability Assurance Client

Communication Between the Firm and Another Practitioner

- R5406.4** If the firm determines to use the assurance work of another practitioner relating to the sustainability information of a sustainability assurance client for purposes of the sustainability assurance engagement, the engagement leader shall take responsibility to make that practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable to the sustainability assurance client given the nature and the circumstances of the sustainability assurance engagement. When making another practitioner aware of the relevant provisions in this Part, the firm shall communicate at appropriate times the necessary information to enable that practitioner to confirm their compliance with those provisions.

- 5406.4 A1 Examples of matters the firm might communicate include:
- Whether the sustainability assurance client is a public interest entity and the relevant provisions applicable to the sustainability assurance engagement.
 - The related entities within the sustainability assurance client that are relevant to the independence considerations applicable to another practitioner.
 - The period during which independence is required.

Independence Considerations When the Firm Intends to Use the Assurance Work of Another Practitioner Performed at the Firm's Sustainability Assurance Client

R5406.5 If the firm intends to use the assurance work of another practitioner performed at the firm's sustainability assurance client, the firm shall request that practitioner to confirm that:

- (a) The practitioner meets satisfies the independence requirements in this Part applicable to a firm with respect to the entity at which the other practitioner performs assurance work; and
- (b) The individuals from that other practitioner who perform the assurance work meet satisfy the independence requirements in this Part applicable to a member of a sustainability assurance team with respect to that entity.

5406.5 A1 If the firm is not unable to obtain another practitioner's confirmation of independence in accordance with paragraph R5406.5, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of this Part. In such circumstances, the applicable assurance standard might address the implications for the sustainability assurance engagement.

Using the Assurance Work of Another Practitioner Related to a Value Chain Component

R5406.6 If the firm intends to use the assurance work of another practitioner relating to the sustainability information of a value chain component, the firm shall be satisfied that the other practitioner meets the independence requirements in this Part applicable to a firm with respect to that value chain component. is independent of the value chain component in accordance with the independence requirements of this Part that are applicable to a firm with respect to that value chain component.

5406.6 A1 Examples of ways to meet the requirement in paragraph R5406.6 include the firm:

- Reviewing a statement of independence issued by the other practitioner in relation to the assurance work performed at the value chain component.
- Requesting the other practitioner to confirm that the practitioner meets satisfies the independence requirements of this Part applicable to a firm with respect to the value chain component.

5406.6 A2 If the firm is not unable to be satisfied that the other practitioner meets the independence requirements is independent of the value chain component as set out in accordance with paragraph R5406.6, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of this Part for purposes of the sustainability assurance engagement. In such circumstances, the applicable assurance standard might address the implications for the sustainability assurance engagement.

5406.6 A3 If a firm intends to use the assurance work of another practitioner relating to the sustainability

information of a value chain component for the purposes of the sustainability assurance engagement, the firm is not subject to the independence requirements of this Part with respect to that value chain component.

SECTION 5410

FEES

Introduction

- 5410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5410.2 Section 5330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to sustainability assurance clients.

Requirements and Application Material

General

- 5410.3 A1 Fees for professional services are usually negotiated with and paid by a sustainability assurance client and might create threats to independence. This practice is generally recognized and accepted by intended users of sustainability information.
- 5410.3 A2 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for sustainability assurance clients that are public interest entities.
- 5410.3 A3 For the purposes of this section, sustainability assurance fees comprise fees or other types of remuneration for a sustainability assurance engagement.
- 5410.3 A4 If the firm also performs the audit engagement for the same client, the audit fees and fees for the sustainability assurance engagement are a matter for the firm and the client to agree. If the sustainability assurance engagement is a separate engagement, the provisions in this Part apply, in addition to the relevant provisions in Part 4A that apply to the separate audit engagement.

Fees Paid by a Sustainability Assurance Client

- 5410.4 A1 When fees are negotiated with and paid by a sustainability assurance client, this creates a self-interest threat and might create an intimidation threat to independence.
- 5410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts a sustainability assurance engagement, or any other engagement for a sustainability assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the sustainability assurance engagement.
- 5410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for a sustainability assurance engagement, or any other engagement, are paid by the sustainability assurance client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- Any linkage between fees for the sustainability assurance engagement and those for services other than the sustainability assurance engagement and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, engagement leader or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than the sustainability assurance engagement are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the firm providing the sustainability assurance service and agreeing fees, and the apparent emphasis they and client management place on the quality of the sustainability assurance engagement and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's sustainability assurance work is subject to the review of an independent third party, such as an oversight body.

5410.4 A4 The conditions, policies and procedures described in paragraph 5120.15 A3 (particularly a system of quality management designed, implemented and operated by the firm in accordance with applicable quality management standards) might also impact the evaluation of whether the threats to independence are at an acceptable level.

5410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Sustainability Assurance Fees

5410.5 A1 Determining the fees to be charged to a sustainability assurance client, whether for the sustainability assurance engagement or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

5410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the sustainability assurance fee paid by the sustainability assurance client include:

- The firm's commercial rationale for the sustainability assurance fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the sustainability assurance fee.

5410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the sustainability assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the work performed.

Impact of Other Services Provided to a Sustainability Assurance Client

R5410.6 Subject to paragraph R5410.7, a firm shall not allow the sustainability assurance fee to be influenced by the provision of services other than the sustainability assurance engagement to a sustainability assurance client by the firm or a network firm.

5410.6 A1 The sustainability assurance fee ordinarily reflects a combination of matters, such as those identified in paragraph 5410.23 A1. However, the provision of other services to a sustainability assurance client is not an appropriate consideration in determining the sustainability assurance fee.

R5410.7 As an exception to paragraph R5410.6, when determining the sustainability assurance fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than the sustainability assurance engagement to a sustainability assurance client.

Contingent Fees

5410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R5410.9 A firm shall not charge directly or indirectly a contingent fee for a sustainability assurance engagement.

R5410.10 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to a sustainability assurance client, if:

- (a) The fee is charged by the firm expressing the opinion on the sustainability information and the fee is material or expected to be material to that firm;
- (b) The fee is charged by a network firm that participates in a significant part of the sustainability assurance engagement and the fee is material or expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the assurance of material information in the sustainability information on which the firm will express an opinion.

5410.10 A1 Paragraphs R5410.9 and R5410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with a sustainability assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to a sustainability assurance client, it might still impact the level of the self-interest threat.

5410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the sustainability information on which the firm will express an opinion.

5410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Sustainability Assurance to Sustainability Assurance Fee

5410.11 A1 Where a firm performs both an audit engagement and a sustainability assurance engagement for a sustainability assurance client, paragraphs 410.11 A1 to 410.11 A3 in Part 4A apply in the context of the fees charged by the firm and network firms to the sustainability assurance client. Where the firm is not engaged to perform an audit engagement for the client, paragraphs 5410.11 A2 to A4 apply.

5410.11 A2 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to a sustainability assurance client is generated by providing services other than the sustainability assurance engagement to the client, due to concerns about the potential loss of either the sustainability assurance engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-sustainability assurance relationship, which might create a threat to the sustainability assurance provider's independence.

5410.11 A3 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than the sustainability assurance engagement to the sustainability assurance fee.
- The length of time during which a large proportion of fees for services other than the sustainability assurance engagement to the sustainability assurance fee has existed.
- The nature, scope and purposes of the services other than the sustainability assurance engagement, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

5410.11 A4 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement or the service other than the sustainability assurance engagement review

the relevant sustainability assurance work.

- Reducing the extent of services other than the sustainability assurance engagement provided to the sustainability assurance client.

Total Fees – Overdue Fees

- 5410.12 A1 The level of the self-interest threat might be impacted if fees payable by a sustainability assurance client for the sustainability assurance engagement or services other than the sustainability assurance engagement are overdue during the period of the sustainability assurance engagement.
- 5410.12 A2 It is generally expected that the firm will obtain payment of such fees before the sustainability assurance report is issued.
- 5410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:
- The significance of the overdue fees to the firm.
 - The length of time the fees have been overdue.
 - The firm's assessment of the ability and willingness of the sustainability assurance client to pay the overdue fees.
- 5410.12 A4 Examples of actions that might be safeguards to address such a threat include:
- Obtaining partial payment of overdue fees.
 - Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the sustainability assurance work.
- R5410.13** When a significant part of the fees due from a sustainability assurance client remains unpaid for a long time, the firm shall determine:
- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 5511 are applicable; and
 - (b) Whether it is appropriate for the firm to be re-appointed or continue the sustainability assurance engagement.

Total Fees – Fee Dependency

All Sustainability Assurance Clients

- 5410.14 A1 When the total fees generated from a sustainability assurance client by the firm expressing the sustainability assurance opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from the sustainability assurance engagement and other services from that client impact the level of the self-interest threat and create an intimidation threat.
- 5410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 5410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the firm.
 - Whether the firm is expected to diversify such that any dependence on the

sustainability assurance client is reduced.

5410.14 A4 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who is not a member of the firm review the sustainability assurance work.
- Reducing the extent of services other than the sustainability assurance engagement provided to the sustainability assurance client.
- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

5410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from a sustainability assurance client represent a large proportion of the revenue of one leader or one office of the firm.

5410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the sustainability assurance client to the leader or office.
- The extent to which the compensation of the leader, or the leaders in the office, is dependent upon the fees generated from the client.

5410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement review the sustainability assurance work.
- Ensuring that the compensation of the leader is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than the sustainability assurance engagement provided by the leader or office to the sustainability assurance client.
- Increasing the client base of the leader or the office to reduce dependence on the client.
- Increasing the extent of services provided by the leader or the office to other clients.

Sustainability Assurance Clients that are Not Public Interest Entities

R5410.15 When for each of five consecutive years total fees from a sustainability assurance client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the assurance opinion being issued on the fifth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, review the fifth year's sustainability assurance work; or
- (b) After the assurance opinion on the fifth year's sustainability information has been issued, and before the assurance opinion is issued on the sixth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, or a professional body review the fifth year's sustainability assurance work.

- R5410.16** If the total fees described in paragraph R5410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R5410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.
- R5410.17** When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.15 (a), if:
- (a) The circumstances addressed by paragraph R5410.15 apply to only one of the firms expressing the assurance opinion; and
 - (b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.

Sustainability Assurance Clients that are Public Interest Entities

- R5410.18** When for each of two consecutive years the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the assurance opinion being issued on the second year's sustainability information, a review, consistent with the objective of an engagement quality review, performed by a sustainability assurance practitioner who is not a member of the firm expressing the opinion on the sustainability information ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.
- R5410.19** When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.18, if:
- (a) The circumstances addressed by paragraph R5410.18 apply to only one of the firms expressing the assurance opinion; and
 - (b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.
- R5410.20** Subject to paragraph R5410.21, if the circumstances described in paragraph R5410.18 continue for five consecutive years, the firm shall cease to be the sustainability assurance practitioner after the assurance opinion for the fifth year is issued.
- R5410.21** As an exception to paragraph R5410.20, the firm may continue to be the sustainability assurance practitioner after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:
- (a)
 - (i) Where there is a designated regulatory or professional body in the relevant jurisdiction, the firm consults with that body and that body concurs that having the firm continue to provide the sustainability assurance service would be in the public interest; or
 - (ii) Where there is no designated regulatory or professional body in the relevant jurisdiction, the firm consults with and obtains concurrence from those charged with governance of the sustainability assurance client that having the firm

continue to provide the sustainability assurance service would be in the public interest; and

- (b) Before the assurance opinion on the sixth and any subsequent year's sustainability information is issued, the firm engages a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a pre-issuance review.

5410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the sustainability assurance engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Sustainability Assurance Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

5410.22 A1 Communication by the firm of fee-related information (for both the sustainability assurance engagement and services other than the sustainability assurance engagement) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of sustainability assurance work and impact on the sustainability assurance fee.

Fees for the Sustainability Assurance Engagement

R5410.23 Subject to paragraph R5410.24, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) Fees paid or payable to the firm or network firms for the sustainability assurance engagement; and
- (b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.23 A1 The objective of such communication is to provide the background and context to the fees for the sustainability assurance engagement to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
 - The scale, complexity and geographic spread of the sustainability assurance client's operations.
 - The time spent or expected to be spent commensurate with the scope and complexity of the sustainability assurance engagement.
 - The cost of other resources utilized or expended in performing the sustainability assurance engagement.
 - The quality of record keeping and processes for sustainability information preparation.
- Adjustments to the fees quoted or charged during the period of the sustainability assurance engagement, and the reasons for any such adjustments.

- Changes to laws and regulations and professional standards relevant to the sustainability assurance engagement that impacted the fees.

5410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R5410.24 As an exception to paragraph R5410.23, the firm may determine not to communicate the information set out in paragraph R5410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group sustainability information prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on that group sustainability information.

Fees for Other Services

R5410.25 Subject to paragraph R5410.27, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) The fees, other than those disclosed under paragraph R5410.23(a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the sustainability information on which the firm will express an opinion; and
- (b) As set out in paragraph 5410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than the sustainability assurance engagement relative to the sustainability assurance fee:
 - (i) Whether such threats are at an acceptable level; and
 - (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R5410.25(a) to the aggregate of the fees charged by the firm and network firms for the sustainability assurance engagement.

R5410.26 The firm shall include in the communication required by paragraph R5410.25(a) the fees, other than those disclosed under paragraph R5410.23(a), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows, or has reason to

believe, that such fees are relevant to the evaluation of the firm's independence.

5410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R5410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the sustainability assurance client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

R5410.27 As an exception to paragraph R5410.25, the firm may determine not to communicate the information set out in paragraph R5410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on that group sustainability information.

Fee Dependency

R5410.28 Where the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R5410.18); and
- (c) Any proposal to continue the sustainability assurance engagement under paragraph R5410.21.

Public Disclosure of Fee-related Information

5410.29 A1 In view of the public interest in the assurance of sustainability information disclosed by public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the sustainability assurance client which might reasonably be thought to be relevant to the evaluation of the firm's independence.

R5410.30 If laws and regulations do not require a sustainability assurance client to disclose sustainability assurance fees, fees for services other than the sustainability assurance engagement paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or

payable and their impact on the firm's independence.

5410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for sustainability assurance and services other than the sustainability assurance engagement.
- The nature of services and their associated fees as disclosed under paragraph R5410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

R5410.31 After the discussion with those charged with governance as set out in paragraph R5410.30, to the extent that the sustainability assurance client that is a public interest entity does not make the relevant disclosure, subject to paragraph R5410.32, the firm shall publicly disclose:

- (a) Fees paid or payable to the firm and network firms for the sustainability assurance engagement;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control where the sustainability information of those entities is consolidated in the sustainability information on which the firm will express an opinion;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total fees received by the firm from the sustainability assurance client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

5410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 5410.30 A1.

5410.31 A2 Factors the firm might consider when making the determination required by paragraph R5410.31(c) are set out in paragraph 5410.26 A1.

5410.31 A3 When disclosing fee-related information in compliance with paragraph R5410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the sustainability assurance report.

- R5410.32** As an exception to paragraph R5410.31, the firm may determine not to publicly disclose the information set out in paragraph R5410.31 relating to:
- (a) A parent entity that also prepares group sustainability information provided that the firm or a network firm expresses an opinion on the group sustainability information; or
 - (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
 - (i) That entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and
 - (ii) The firm or a network firm expresses an opinion on that group sustainability information.

[Paragraph R5410.33 is intentionally left blank]

SECTION 5411

COMPENSATION AND EVALUATION POLICIES

Introduction

- 5411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5411.3 A1 When a sustainability assurance team member for a particular sustainability assurance client is evaluated on or compensated for selling non-assurance services to that sustainability assurance client, the level of the self-interest threat will depend on:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
 - (b) The role of the individual on the sustainability assurance team; and
 - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 5411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.
 - Removing that individual from the sustainability assurance team.
- 5411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.
- R5411.4** A firm shall not evaluate or compensate a key sustainability assurance leader based on that leader's success in selling non-assurance services to the leader's sustainability assurance client. This requirement does not preclude normal profit-sharing arrangements between leaders of a firm.

SECTION 5420

GIFTS AND HOSPITALITY

Introduction

- 5420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5420.2 Accepting gifts and hospitality from a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

- R5420.3** A firm, network firm or a sustainability assurance team member shall not accept gifts and hospitality from a sustainability assurance client, unless the value is trivial and inconsequential.
- 5420.3 A1 Where a firm, network firm or sustainability assurance team member is offering or accepting an inducement to or from a sustainability assurance client, the requirements and application material set out in Section 5340 apply and non-compliance with these requirements might create threats to independence.
- 5420.3 A2 The requirements set out in Section 5340 relating to offering or accepting inducements do not allow a firm, network firm or sustainability assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

SECTION 5430

ACTUAL OR THREATENED LITIGATION

Introduction

- 5430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5430.2 When litigation with a sustainability assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

- 5430.3 A1 The relationship between client management and sustainability assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between a sustainability assurance client and the firm, a network firm or a sustainability assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 5430.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
 - Whether the litigation relates to a prior sustainability assurance engagement.
- 5430.3 A3 If the litigation involves a sustainability assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the sustainability assurance team.
- 5430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 5510

FINANCIAL INTERESTS

Introduction

- 5510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5510.2 Holding a financial interest in a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 5510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 5510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in a sustainability assurance client include:
- The role of the individual holding the financial interest.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest.

Financial Interests in a Sustainability Assurance Client Held by the Firm, a Network Firm, Sustainability Assurance Team Members and Others

- R5510.4** Subject to paragraph R5510.5, a direct financial interest or a material indirect financial interest in the sustainability assurance client shall not be held by:
- (a) The firm or a network firm;
 - (b) A sustainability assurance team member, or any of that individual’s immediate family;
 - (c) Any other leader in the office in which an engagement leader practices in connection with the sustainability assurance engagement, or any of that other leader’s immediate family; or
 - (d) Any other leader or managerial employee who provides services other than sustainability assurance to the sustainability assurance client, except for any whose involvement is minimal, or any of that individual’s immediate family.

5510.4 A1 The office in which the engagement leader practices in connection with a sustainability assurance engagement is not necessarily the office to which that engagement leader is assigned. When the engagement leader is located in a different office from that of the other sustainability assurance team members, professional judgment is needed to determine the office in which the engagement leader practices in connection with the engagement.

R5510.5 As an exception to paragraph R5510.4, an immediate family member identified in subparagraphs R5510.4(c) or (d) may hold a direct or material indirect financial interest in a sustainability assurance client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

Financial Interests in an Entity Controlling a Sustainability Assurance Client

R5510.6 When an entity has a controlling interest in a sustainability assurance client and the client is material to the entity, neither the firm, nor a network firm, nor a sustainability assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests in a Sustainability Assurance Client Held as Trustee

R5510.7 Paragraph R5510.4 shall also apply to a financial interest in a sustainability assurance client held in a trust for which the firm, network firm or individual acts as trustee, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm;
- (b) The interest in the sustainability assurance client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the sustainability assurance client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the sustainability assurance client: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Sustainability Assurance Client

R5510.8 (a) A firm, or a network firm, or a sustainability assurance team member, or any of that individual's immediate family shall not hold a financial interest in an entity when a sustainability assurance client also has a financial interest in that entity, unless:

- (i) The financial interests are immaterial to the firm, the network firm, the sustainability assurance team member and that individual's immediate family member and the sustainability assurance client, as applicable; or
- (ii) The sustainability assurance client cannot exercise significant influence over the entity.

- (b) Before an individual who has a financial interest described in paragraph R5510.8(a) can become a sustainability assurance team member, the individual or that individual's immediate family member shall either:
 - (i) Dispose of the interest; or
 - (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests in a Sustainability Assurance Client Received Unintentionally

- R5510.9** If a firm, a network firm or a leader or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in a sustainability assurance client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:
- (a) If the interest is received by the firm or a network firm, or a sustainability assurance team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
 - (b) (i) If the interest is received by an individual who is not a sustainability assurance team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
 - (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

Financial Interests – Other Circumstances

Immediate Family

- 5510.10 A1 A self-interest, familiarity, or intimidation threat might be created if a sustainability assurance team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the sustainability assurance client is also known to have a financial interest in that entity.
- 5510.10 A2 Factors that are relevant in evaluating the level of such threats include:
- The role of the individual on the sustainability assurance team.
 - Whether ownership of the entity is closely or widely held.
 - Whether the interest allows the investor to control or significantly influence the entity.
 - The materiality of the financial interest.
- 5510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the sustainability assurance team member with the financial interest from the sustainability assurance team.
- 5510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

Close Family

- 5510.10 A5 A self-interest threat might be created if a sustainability assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the sustainability assurance client.
- 5510.10 A6 Factors that are relevant in evaluating the level of such a threat include:
- The nature of the relationship between the sustainability assurance team member and the close family member.
 - Whether the financial interest is direct or indirect.
 - The materiality of the financial interest to the close family member.
- 5510.10 A7 Examples of actions that might eliminate such a self-interest threat include:
- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
 - Removing the individual from the sustainability assurance team.
- 5510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

Other Individuals

- 5510.10 A9 A self-interest threat might be created if a sustainability assurance team member knows that a financial interest in the sustainability assurance client is held by individuals such as:
- Leaders and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R5510.4, or their immediate family members.
 - Individuals with a close personal relationship with a sustainability assurance team member.
- 5510.10 A10 Factors that are relevant in evaluating the level of such a threat include:
- The firm's organizational, operating and reporting structure.
 - The nature of the relationship between the individual and the sustainability assurance team member.
- 5510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the sustainability assurance team member with the personal relationship from the sustainability assurance team.
- 5510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:
- Excluding the sustainability assurance team member from any significant decision-making concerning the sustainability assurance engagement.
 - Having an appropriate reviewer review the work of the sustainability assurance team member.

Retirement Benefit Plan of a Firm or Network Firm

- 5510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm

holds a direct or material indirect financial interest in a sustainability assurance client.

SECTION 5511

LOANS AND GUARANTEES

Introduction

- 5511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5511.2 A loan or a guarantee of a loan with a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5511.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

Loans and Guarantees with a Sustainability Assurance Client

- R5511.4** A firm, a network firm, a sustainability assurance team member, or any of that individual’s immediate family shall not make or guarantee a loan to a sustainability assurance client unless the loan or guarantee is immaterial to:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
 - (b) The client.

Loans and Guarantees with a Sustainability Assurance Client that is a Bank or Similar Institution

- R5511.5** A firm, a network firm, a sustainability assurance team member, or any of that individual’s immediate family shall not accept a loan, or a guarantee of a loan, from a sustainability assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 5511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 5511.5 A2 Even if a firm or network firm receives a loan from a sustainability assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the sustainability assurance client or firm receiving the loan.
- 5511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not a sustainability assurance team member, from a network firm that is not a beneficiary of the loan.

Deposits or Brokerage Accounts

- R5511.6** A firm, a network firm, a sustainability assurance team member, or any of that individual’s immediate family shall not have deposits or a brokerage account with a sustainability assurance client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with a Sustainability Assurance Client that is Not a Bank or Similar Institution

R5511.7 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, a sustainability assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

- (a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

SECTION 5520

BUSINESS RELATIONSHIPS

Introduction

- 5520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5520.2 A close business relationship with a sustainability assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.
- 5520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
 - Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
 - Arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's or a network firm's products or services.
 - Arrangements under which the firm or network firm develops jointly with the client, products or services which one or both parties sell or license to third parties.
- 5520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

Firm, Network Firm, Sustainability Assurance Team Member or Immediate Family Business Relationships with a Sustainability Assurance Client

- R5520.4** A firm, a network firm or a sustainability assurance team member shall not have a close business relationship with a sustainability assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the sustainability assurance team member, as applicable.
- 5520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the sustainability assurance client or its management and the immediate family of a sustainability assurance team member.

Common Interests in Closely-Held Entities

R5520.5 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when a sustainability assurance client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

5520.6 A1 The purchase of goods and services, including the licensing of technology, from a sustainability assurance client by a firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

5520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the sustainability assurance team.

Providing, Selling, Reselling or Licensing Technology

5520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

- (a) To a sustainability assurance client; or
- (b) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 5600 apply.

SECTION 5521

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

- 5521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between a sustainability assurance team member and a director or officer or, depending on their role, certain employees of the sustainability assurance client.
- 5521.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the sustainability assurance team.
 - The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of a Sustainability Assurance Team Member

- 5521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of a sustainability assurance team member is an employee in a position to exert significant influence over the client's sustainability information on which the firm will express an opinion.
- 5521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
 - The role of the sustainability assurance team member.
- 5521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the immediate family member.
- R5521.5** An individual shall not participate as a sustainability assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the sustainability assurance client;
 - (b) Is an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information; or

- (c) Was in such position during any period covered by the engagement or the reporting period for the engagement.

Close Family of a Sustainability Assurance Team Member

- 5521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of a sustainability assurance team member is:
- (a) A director or officer of the sustainability assurance client; or
 - (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.
- 5521.6 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the relationship between the sustainability assurance team member and the close family member.
 - The position held by the close family member.
 - The role of the sustainability assurance team member.
- 5521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of a Sustainability Assurance Team Member

- R5521.7** A sustainability assurance team member shall consult in accordance with firm policies and procedures if the sustainability assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:
- (a) A director or officer of the sustainability assurance client; or
 - (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.
- 5521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:
- The nature of the relationship between the individual and the sustainability assurance team member.
 - The position the individual holds with the client.
 - The role of the sustainability assurance team member.
- 5521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.

- 5521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the individual with whom the sustainability assurance team member has a close relationship.

Relationships of Leaders and Employees of the Firm

R5521.8 Leaders and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

- (a) A leader or employee of the firm or network firm who is not a sustainability assurance team member; and
- (b) A director or officer of the sustainability assurance client or an employee of the sustainability assurance client in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

5521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the leader or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the leader or employee of the firm with the sustainability assurance team.
- The position of the leader or employee within the firm.
- The position the individual holds with the client.

5521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the leader's or employee's responsibilities to reduce any potential influence over the sustainability assurance engagement.
- Having an appropriate reviewer review the relevant sustainability assurance work performed.

SECTION 5522

RECENT SERVICE WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5522.2 If a sustainability assurance team member has recently served as a director or officer, or employee of the sustainability assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During Period Covered by the Sustainability Assurance Report

- R5522.3** The sustainability assurance team shall not include an individual who, during the period covered by the sustainability assurance report:
- (a) Had served as a director or officer of the sustainability assurance client; or
 - (b) Was an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

Service Prior to Period Covered by the Sustainability Assurance Report

- 5522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the sustainability assurance report, a sustainability assurance team member:
- (a) Had served as a director or officer of the sustainability assurance client; or
 - (b) Was an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current sustainability assurance engagement.

- 5522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the sustainability assurance team member.

- 5522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the sustainability assurance team member.

SECTION 5523

SERVING AS A DIRECTOR OR OFFICER OF A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5523.2 Serving as a director or officer of a sustainability assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

- R5523.3** A leader or employee of the firm or a network firm shall not serve as a director or officer of a sustainability assurance client of the firm.

Service as Company Secretary

- R5523.4** A leader or employee of the firm or a network firm shall not serve as Company Secretary for a sustainability assurance client of the firm, unless:
- (a) This practice is specifically permitted under local law, professional rules or practice;
 - (b) Management makes all relevant decisions; and
 - (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.
- 5523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a leader or employee of the firm or a network firm serves as Company Secretary for a sustainability assurance client. (More information on providing non-assurance services to a sustainability assurance client is set out in Section 5600, *Provision of Non-assurance Services to a Sustainability Assurance Client*.)

SECTION 5524

EMPLOYMENT WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5524.2 Employment relationships with a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Sustainability Assurance Clients

- 5524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been a sustainability assurance team member or leader of the firm or a network firm:
- A director or officer of the sustainability assurance client.
 - An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

Former Leader or Sustainability Assurance Team Member Restrictions

- R5524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:
- (a) A former leader who has joined a sustainability assurance client of the firm; or
 - (b) A former sustainability assurance team member who has joined the sustainability assurance client, if either has joined the sustainability assurance client as:
 - (i) A director or officer; or
 - (ii) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

A significant connection remains between the firm or a network firm and the individual, unless:

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
 - (b) Any amount owed to the individual is not material to the firm or the network firm; and
 - (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.
- 5524.4 A1 Even if the requirements of paragraph R5524.4 are met, a familiarity or intimidation threat might still be created.
- 5524.4 A2 A familiarity or intimidation threat might also be created if a former leader of the firm or network firm has joined an entity in one of the positions described in paragraph 5524.3 A1 and the entity subsequently becomes a sustainability assurance client of the firm.

- 5524.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.
 - Any involvement the individual will have with the sustainability assurance team.
 - The length of time since the individual was a sustainability assurance team member or leader of the firm or network firm.
 - The former position of the individual within the sustainability assurance team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.
- 5524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:
- Modifying the plan for the sustainability assurance engagement.
 - Assigning to the sustainability assurance team individuals who have sufficient experience relative to the individual who has joined the client.
 - Having an appropriate reviewer review the work of the former sustainability assurance team member.

Sustainability Assurance Team Members Entering Employment with a Client

- R5524.5** A firm or network firm shall have policies and procedures that require sustainability assurance team members to notify the firm or network firm when entering employment negotiations with a sustainability assurance client.
- 5524.5 A1 A self-interest threat is created when a sustainability assurance team member participates in the sustainability assurance engagement while knowing that the sustainability assurance team member will, or might, join the client at some time in the future.
- 5524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the sustainability assurance team.
- 5524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that individual while on the team.

Sustainability Assurance Clients that are Public Interest Entities

Key Sustainability Assurance Leaders

- R5524.6** Subject to paragraph R5524.8, if an individual who was a key sustainability assurance leader with respect to a sustainability assurance client that is a public interest entity joins the client as:
- (a) A director or officer; or
 - (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information,
- independence is compromised unless, subsequent to the individual ceasing to be a key sustainability assurance leader:

- (i) The sustainability assurance client has issued assured sustainability information covering a period of not less than twelve months; and
- (ii) The individual was not a sustainability assurance team member with respect to the assurance of that sustainability information.

Chief Executive or Equivalent of the Firm

R5524.7 Subject to paragraph R5524.8, if an individual who was the Chief Executive or equivalent of the firm joins a sustainability assurance client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information,

independence is compromised, unless twelve months have passed since the individual was the Chief Executive or equivalent of the firm.

Business Combinations

R5524.8 As an exception to paragraphs R5524.6 and R5524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former key sustainability assurance leader or Chief Executive from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the key sustainability assurance leader or Chief Executive is not material to the firm or network firm as applicable;
- (c) The former key sustainability assurance leader or Chief Executive does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the former key sustainability assurance leader's or Chief Executive's position held with the sustainability assurance client with those charged with governance.

SECTION 5525

TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

- 5525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5525.2 The loan of personnel to a sustainability assurance client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 5525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to a sustainability assurance client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
 - Not including the loaned personnel as a sustainability assurance team member might address a familiarity or advocacy threat.
 - Not giving the loaned personnel sustainability assurance responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 5525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to a sustainability assurance client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R5525.4** A firm or network firm shall not loan personnel to a sustainability assurance client unless the firm or network firm is satisfied that:
- (a) Such assistance is provided only for a short period of time;
 - (b) Such personnel will not assume management responsibilities and the sustainability assurance client will be responsible for directing and supervising the activities of the personnel;
 - (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
 - (d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

SECTION 5540

LONG ASSOCIATION OF PERSONNEL (INCLUDING LEADER ROTATION) WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5540.2 When an individual is involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

[Paragraph 5540.3 A1 is intentionally left blank]

All Sustainability Assurance Clients

- 5540.4 A1 Although an understanding of a sustainability assurance client and its environment is fundamental to assurance quality, a familiarity threat might be created as a result of an individual's long association as a sustainability assurance team member or audit team member with:
- (a) The sustainability assurance client and its operations;
 - (b) The sustainability assurance client's senior management; or
 - (c) The sustainability information on which the firm will express an opinion or the financial or non-financial information which forms the basis of the sustainability information.
- 5540.4 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 5540.4 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
 - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
 - How long the individual has been an engagement team member for the sustainability assurance engagement or the audit engagement, and the nature of the roles performed.
 - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
 - The extent to which the individual, due to the individual's seniority, has the ability

to influence the outcome of the sustainability assurance engagement, for example, by making key decisions or directing the work of other engagement team members.

- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the sustainability assurance client:

- The nature or complexity of the client's sustainability reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

5540.4 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

5540.4 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time would be rotating the individual off the sustainability assurance team.

5540.4 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the sustainability assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not a sustainability assurance team member review the work of the individual.
- Performing regular independent internal, or external, quality reviews of the engagement.

R5540.5 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the sustainability assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the sustainability assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.22 also apply.

R5540.6 Where an individual is a member of both the sustainability assurance team and the audit team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the sustainability assurance team and the audit team, the firm shall, in addition to complying with paragraph R5540.5, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.22 also apply.

Sustainability Assurance Clients that are Public Interest Entities

R5540.7 Subject to paragraphs R5540.9 to R5540.11, in respect of a sustainability assurance engagement of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement leader;
- (b) The individual appointed as responsible for performing the engagement quality review;
- (c) Any other key sustainability assurance leader role; or
- (d) A key audit partner.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R5540.13 to R5540.21.

R5540.8 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R5540.7(a) to (d) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R5540.13 to R5540.15 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

5540.8 A1 For example:

- (a) An individual who served as engagement leader for four years followed by three years off can only act thereafter as a key sustainability assurance leader on the same sustainability assurance engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R5540.17.
- (b) An individual who served as engagement partner for two years for the audit of the sustainability assurance client’s financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R5540.18.

R5540.9 As an exception to paragraph R5540.7, key sustainability assurance leaders whose continuity is especially important to assurance quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with

governance, be permitted to serve an additional year as a key sustainability assurance leader as long as the threat to independence can be eliminated or reduced to an acceptable level.

5540.9 A1 For example, a key sustainability assurance leader may remain in that role on the sustainability assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement leader. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R5540.10 If a sustainability assurance client becomes a public interest entity, a firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.

R5540.10a If a firm has previously performed sustainability assurance engagements for a sustainability assurance client that is a public interest entity and these engagements were not within the scope of the International Independence Standards in this Part, the firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the firm begins to undertake sustainability assurance engagements within the scope of the International Independence Standards in this Part in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the firm first undertakes a sustainability assurance engagement within the scope of the International Independence Standards in this Part, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years before the firm first undertakes a sustainability assurance engagement within the scope of the International Independence Standards in this Part, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.

R5540.11 When a firm has only a few people with the necessary knowledge and experience to serve as a key sustainability assurance leader on the sustainability assurance engagement of a public interest entity, rotation of key sustainability assurance leaders might not be possible. As an exception to paragraph R5540.7, if an independent regulatory body in the relevant jurisdiction has provided an exemption from leader rotation in such circumstances, an

individual may remain a key sustainability assurance leader for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key sustainability assurance leader may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R5540.12 In evaluating the threats created by an individual's long association with a sustainability assurance engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the sustainability assurance engagement or the audit engagement for the same client prior to the individual becoming a key sustainability assurance leader.

5540.12 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key sustainability assurance leader to continue in that role even though the length of time served as a key sustainability assurance leader is less than seven years.

Cooling-off Period

R5540.13 If the individual acted as the engagement leader for seven cumulative years, the cooling-off period shall be five consecutive years.

R5540.14 Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R5540.15 If the individual has acted as a key sustainability assurance leader other than in the capacities set out in paragraphs R5540.13 and R5540.14 for seven cumulative years, the cooling-off period shall be two consecutive years.

5540.16 A1 The leader rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement leader can assume the role of engagement quality reviewer (see paragraph 5325.8 A4).

Service in a combination of key sustainability assurance leader or key audit partner roles

R5540.17 If the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the engagement leader or engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

R5540.18 Subject to paragraph R5540.19(a), if the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the key sustainability assurance leader or key audit partner responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R5540.19 If an individual has acted in a combination of engagement leader, engagement partner and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R5540.18, be five consecutive years where the individual has been the engagement leader or engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

R5540.20 If the individual acted in any combination of key sustainability assurance leader and key audit

partner roles other than those addressed in paragraphs R5540.17 to R5540.19, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R5540.21 In determining the number of years that an individual has been a key sustainability assurance leader or a key audit partner as set out in paragraph R5540.7, the length of the relationship shall, where relevant, include time while the individual was a key sustainability assurance leader on the sustainability assurance engagement or a key audit partner on the audit engagement for the same client at a prior firm.

[Paragraph R5540.22 is intentionally left blank]

Restrictions on Activities During the Cooling-off Period

R5540.23 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement or the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the sustainability assurance engagement or the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the sustainability assurance engagement or the audit engagement);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the sustainability assurance client, or overseeing the relationship of the firm or a network firm with the sustainability assurance client; or
- (d) Undertake any other role or activity not referred to above with respect to the sustainability assurance client, including the provision of non-assurance services, that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the sustainability assurance engagement or the audit engagement.

5540.23 A1 The provisions of paragraph R5540.23 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Chief Executive or equivalent.

SECTION 5600

PROVISION OF NON-ASSURANCE SERVICES TO A SUSTAINABILITY ASSURANCE CLIENT

Introduction

- 5600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5600.2 Firms and network firms might provide a range of non-assurance services to their sustainability assurance clients, consistent with their skills and expertise. Providing non-assurance services to sustainability assurance clients might create threats to compliance with the fundamental principles and threats to independence.
- 5600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to sustainability assurance clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to sustainability assurance clients and indicate the types of threats that might be created as a result.
- 5600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to a sustainability assurance client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.
- 5600.5 New business practices, the developing sustainability landscape, the evolution of financial markets and sustainability reporting, and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to a sustainability assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.
- 5600.5a The requirements and application material in this section apply where a firm or a network firm provides non-assurance services to a sustainability assurance client and:
- (a) The results of the services will affect, or there is a risk that they will affect, the sustainability information on which the firm will express an assurance opinion, the records underlying that information, or the internal controls over sustainability reporting; or
 - (b) The services might create an advocacy, self-interest, familiarity or intimidation threat.
- 5600.6 Circumstances involving non-assurance services that might affect the sustainability information on which the firm will express an assurance opinion or the records underlying that information, include where a firm or network firm:
- (a) Uses technology to provide a non-assurance service to a sustainability assurance client; or
 - (b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the firm or a network firm:
 - (i) To a sustainability assurance client; or

- (ii) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm.

5600.6a Where the firm is also the entity's auditor, the requirements and application material in Section 600 apply with respect to identifying, evaluating and addressing threats to the firm's independence, in relation to the audit engagement, that might be created by the provision of non-assurance services to the audit client. A non-assurance service related to sustainability information that does not affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion does not create a self-review or advocacy threat to independence for the audit. However, such a service might create threats to independence in relation to performing a sustainability assurance engagement for the same client where the provision of that service affects the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

5600.7 A1 Paragraphs R5100.6 to 5100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to sustainability assurance clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

5600.8 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R5400.21 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R5600.9 Before a firm or a network firm accepts an engagement to provide a non-assurance service to a sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Identifying and Evaluating Threats

All Sustainability Assurance Clients

5600.10 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to a sustainability assurance client is set out in paragraph 5120.6 A3.

5600.10 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to a sustainability assurance client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.

- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R5400.20 to R5400.21).
- Whether the outcome of the service will affect the matters reflected in the sustainability information on which the firm will express an opinion or the records underlying that information, and, if so:
 - The extent to which the outcome of the service will have a material effect on the sustainability information.
 - The degree of subjectivity involved in determining the appropriate amounts, disclosures or treatment for those matters reflected in the sustainability information.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Sustainability information on which the firm will express an opinion or the records underlying that information.
 - Internal controls over sustainability reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the sustainability assurance engagement.
- The fee relating to the provision of the non-assurance service.

5600.10 A3 Subsections 5601 to 5610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats.

Materiality in relation to sustainability information

5600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to a sustainability assurance client. Subsections 5601 to 5610 refer to materiality in relation to a sustainability assurance client's sustainability information on which the firm will express an opinion. The concept of materiality in relation to sustainability assurance engagement is addressed in the relevant reporting and assurance frameworks. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the sustainability information needs of users. The applicable reporting and assurance frameworks might include principles or guidance to assist the sustainability assurance client in identifying information that might be material to users.

5600.11 A2 Where the Code expressly prohibits the provision of a non-assurance service to a sustainability assurance client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the sustainability information on which the firm will express an opinion.

Providing advice and recommendations

5600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R5600.15. Where the sustainability assurance client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the sustainability assurance client is a public interest entity, paragraphs R5600.17 and R5600.18 apply.

Multiple non-assurance services provided to the same sustainability assurance client

R5600.13 When a firm or a network firm provides multiple non-assurance services to a sustainability assurance client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

5600.13 A1 In addition to paragraph 5600.10 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to a sustainability assurance client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the sustainability assurance client.

5600.13 A2 When the sustainability assurance practitioner is also the auditor, paragraphs R600.13 and 600.13 A1 in Part 4A apply in relation to multiple non-assurance services provided to the same client.

Self-review threats

5600.14 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there might be a risk of the firm carrying out assurance procedures on its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the sustainability assurance team will rely when forming a judgment as part of a sustainability assurance engagement.

R5600.15 Before providing a non-assurance service to a sustainability assurance client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- (a) The results of the service will form part of or affect the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting; and
- (b) In the course of performing assurance work on the sustainability information on which the firm will express an opinion, the sustainability assurance team will evaluate or rely on any judgments made or activities performed by the firm or network firm when

providing the service.

Sustainability Assurance Clients that are Public Interest Entities

- 5600.16 A1 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to a sustainability assurance client that is a public interest entity.
- 5600.16 A2 Where the provision of a non-assurance service to a sustainability assurance client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

- R5600.17** A firm or a network firm shall not provide a non-assurance service to a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat in relation to the assurance work on the sustainability information on which the firm will express an opinion. (Ref: Para. 5600.14 A1 and R5600.15).

Providing advice and recommendations

- R5600.18** As an exception to paragraph R5600.17, a firm or a network firm may provide advice and recommendations to a sustainability assurance client that is a public interest entity in relation to information or matters arising in the course of a sustainability assurance engagement provided that the firm:
- (a) Does not assume a management responsibility (Ref: Para. R5400.20 and R5400.21); and
 - (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.
- 5600.18 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of a sustainability assurance engagement include:
- Advising on sustainability reporting standards or policies and sustainability information disclosure requirements.
 - Advising on the appropriateness of controls related to sustainability information and the methods used in determining or establishing the sustainability information to be reported.
 - Proposing an adjustment to sustainability information arising from the sustainability assurance engagement findings.
 - Discussing findings on internal controls over sustainability reporting and processes and recommending improvements.
 - Advising on compliance with group sustainability reporting policies.

Addressing Threats

All Sustainability Assurance Clients

- 5600.19 A1 Paragraphs R5120.10 to 5120.10 A2 include a requirement and application material that are

relevant when addressing threats to independence, including a description of safeguards.

5600.19 A2 Threats to independence created by providing a non-assurance service or multiple services to a sustainability assurance client vary depending on the facts and circumstances of the sustainability assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

5600.19 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

5600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to a sustainability assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
- (b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- (c) End the sustainability assurance engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Sustainability Assurance Clients

5600.20 A1 Paragraphs 5400.40 A1 and 5400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Sustainability Assurance Clients that are Public Interest Entities

5600.21 A1 Paragraphs R5600.22 to R5600.24 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that assures the sustainability information of that public interest entity.

5600.21 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.

- Identify any services that can be provided to the entities identified in paragraph R5600.22 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.
- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

R5600.22 Before a firm that undertakes assurance work on the sustainability information of a public interest entity or a network firm accepts an engagement to provide a non-assurance service to:

- (A) That public interest entity;
- (B) Any entity that controls, directly or indirectly, that public interest entity; or
- (C) Any entity that is controlled directly or indirectly by that public interest entity,

the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

- (a) Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:
 - (i) Is not prohibited; and
 - (ii) Will not create a threat to the firm's independence as sustainability assurance practitioner of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

5600.22 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

- R5600.23** A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R5600.22 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:
- (a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence in providing the sustainability assurance service to the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and
 - (b) The provision of that service.
- R5600.24** As an exception to paragraphs R5600.22 and R5600.23, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:
- (a) The firm provides such information as it is able without breaching its legal or professional obligations;
 - (b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
 - (c) Those charged with governance do not disagree with the firm's conclusion in (b).
- R5600.25** The firm or the network firm, having taken into account any matters raised by those charged with governance of the sustainability assurance client that is a public interest entity or by the entity referred to in paragraph R5600.22 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the sustainability assurance engagement if:
- (a) The firm or the network firm is not permitted to provide any information to those charged with governance of the sustainability assurance client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or
 - (b) Those charged with governance of a sustainability assurance client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Sustainability Assurance Client that Later Becomes a Public Interest Entity

- R5600.26** A non-assurance service provided, either currently or previously, by a firm or a network firm to a sustainability assurance client compromises the firm's independence when the client becomes a public interest entity unless:
- (a) The previous non-assurance service complies with the provisions of this section that relate to sustainability assurance clients that are not public interest entities;
 - (b) Non-assurance services currently in progress that are not permitted under this section for sustainability assurance clients that are public interest entities are ended before or,

if that is not possible, as soon as practicable after, the client becomes a public interest entity; and

- (c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

5600.26 A1 Examples of actions that the firm might recommend to the sustainability assurance client include engaging another firm to:

- Review or re-perform the affected sustainability assurance work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R5600.27 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to sustainability assurance clients. As an exception to those requirements and the requirement in paragraph R5400.20, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose sustainability information the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client,

provided that all of the following conditions are met:

- (i) The firm or a network firm does not express an opinion on the sustainability information of the related entity;
- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose sustainability information the firm will express an opinion;
- (iii) The services do not create a self-review threat; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

Documentation

5600.28 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R5400.60 and 5400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the sustainability information on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the sustainability assurance client, including whether the results of the service will be subject to sustainability assurance procedures.

- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R5600.22, the steps taken to comply with paragraphs R5600.22 to R5600.24.

SUBSECTION 5601 – SUSTAINABILITY DATA AND INFORMATION SERVICES

Introduction

5601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing sustainability data and information services for the preparation or maintenance of sustainability data, records or information to a sustainability assurance client.

Requirements and Application Material

General

5601.2 A1 Management is responsible for the preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework. These responsibilities include:

- Determining sustainability reporting policies and the reporting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction, event or other matter included in the sustainability information.
- Originating or changing sustainability data entries or records.
- Determining or approving sustainability information classifications.

Paragraph R5400.20 prohibits a firm or a network firm from assuming a management responsibility.

Description of Service

5601.3 A1 Sustainability data and information services comprise a broad range of services including:

- Preparing sustainability data records or sustainability information that is reported.
- Recording data, events or other matters included in the sustainability information.
- Resolving sustainability information inaccuracies.
- Converting existing sustainability information from one sustainability reporting framework to another.

- Accounting and bookkeeping services that might affect the sustainability information on which the firm expresses an opinion.

Potential Threats Arising from the Provision of Sustainability Data and Information Services

All Sustainability Assurance Clients

5601.4 A1 Providing sustainability data and information services to a sustainability assurance client creates a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion, or the sustainability data or information records underlying that information.

Sustainability Assurance Clients that are Not Public Interest Entities

R5601.5 A firm or a network firm shall not provide to a sustainability assurance client that is not a public interest entity sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are not at an acceptable level.

5601.5 A1 Sustainability data and information services that are routine or mechanical:

- (a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and
- (b) Require little or no professional judgment.

5601.5 A2 Sustainability data and information services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgment of the firm or network firm.

5601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing calculations or reports based on client or third party-originated data for approval by the client.
- Recording recurring data which are easily determinable from source documents, where the client has determined or approved the appropriate classification.
- Posting data coded by the client or received from third parties to the sustainability information records.
- Preparing sustainability information to be reported based on information in the client-approved records and preparing related notes based on client-approved records.
- Compiling and presenting factual sustainability data from client or third-party identified sources for comparative purposes.

The firm or a network firm may provide such services to sustainability assurance clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R5400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R5601.5(b).

5601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing sustainability data and information services of a routine or mechanical nature to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5601.6 A firm or a network firm shall not provide sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion to a sustainability assurance client that is a public interest entity.

[Paragraph R5601.7 is intentionally left blank]

SUBSECTION 5602 – ADMINISTRATIVE SERVICES

Introduction

5602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Description of Service

5602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

5602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising a sustainability assurance client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Sustainability Assurance Clients

5602.3 A1 Providing administrative services to a sustainability assurance client does not usually create a threat when such services are clerical in nature and require little to no professional judgment.

SUBSECTION 5603 – VALUATIONS AND ADVISORY SERVICES ON FORWARD-LOOKING INFORMATION

Introduction

5603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing valuations or advisory services on forward-looking information to a sustainability assurance client.

Requirements and Application Material

Description of Service

5603.2 A1 Valuations and advisory services on forward-looking information, including forecasting, include the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity. For such services, the values might be non-monetary, for example, forecasting estimates of materials reserves or the amounts of hazardous substances produced by a manufacturing process.

5603.2 A2 If a firm or a network firm is requested to perform a valuation or an advisory service on forward-looking information to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes and the results of the service have no effect on the sustainability information on which the firm will express an opinion, or the records underlying that information, other than through entries related to tax, the requirements and application material set out in paragraphs 5604.17 A1 to 5604.19 A1, relating to such services, apply.

Potential Threats Arising from the Provision of Valuations and Advisory Services on Forward-looking Information

All Sustainability Assurance Clients

5603.3 A1 Providing a valuation or an advisory service on forward-looking information to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client, and evaluating the level of such threats include:

- The use and purpose of the results of the service or its inclusion in a report.
- Whether the results of the service will be made public.
- The extent to which the service methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the service methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for the service involving standard or established methodologies.
- Whether the service will have a material effect on the sustainability information.

- The extent of the disclosures related to the item covered by the service in the sustainability information.
- The volatility of the values involved as a result of dependence on future events.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5603.5 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

R5603.4 A firm or a network firm shall not provide a valuation or an advisory service on forward looking information to a sustainability assurance client that is not a public interest entity if:

- (a) The service involves a significant degree of subjectivity; and
- (b) The service will have a material effect on the sustainability information on which the firm will express an opinion.

5603.4 A1 Certain valuations and [advisory services on](#) forward-looking information do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation or an advisory service on forward-looking information performed by two or more parties are not likely to be materially different.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5603.5 A firm or a network firm shall not provide a valuation or an advisory service on forward-looking information to a sustainability assurance client that is a public interest entity if the provision of the service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation or an advisory service on forward looking information to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

SUBSECTION 5604 – TAX SERVICES

Introduction

5604.1 In addition to the specific requirements and application material in this subsection, the

requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a tax service to a sustainability assurance client.

Requirements and Application Material

Description of Service

- 5604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:
- Tax return preparation.
 - Tax calculations for the purpose of preparing accounting entries or sustainability information.
 - Tax advisory services.
 - Tax planning services.
 - Tax services involving valuations.
 - Assistance in the resolution of tax disputes.
- 5604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorize generically the threats to which specific tax services give rise.
- 5604.2 A3 While tax services are generally relevant to financial information and accounting entries, such services can also be relevant to sustainability and, where they are, might affect the sustainability information on which the firm will express an opinion or the records underlying that information.

Potential Threats Arising from the Provision of Tax Services

- 5604.3 A1 Providing tax services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.
- 5604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to a sustainability assurance client, and evaluating the level of such threats include:
- The particular characteristics of the engagement.
 - The level of tax expertise of the client's employees.
 - The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
 - The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

All Sustainability Assurance Clients

- R5604.4** A firm or a network firm shall not provide a tax service or recommend a transaction to a sustainability assurance client if the service or transaction relates to marketing, planning, or

opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

5604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R5604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

A. Tax Return Preparation

Description of Service

5604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions.
- Responding on behalf of the sustainability assurance client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Sustainability Assurance Clients

5604.6 A1 Providing tax return preparation services does not usually create a threat because:

- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

B. Tax Calculations That Affect Sustainability Information

Description of Service

5604.7 A1 Tax calculation services involve the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the sustainability assurance client. In some cases, those services might also affect the sustainability information of the client.

Potential Threats Arising from the Provision of Tax Calculation Services

All Sustainability Assurance Clients

5604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client for the purpose of preparing accounting entries that support such balances creates a self-review threat where the results of those calculations affect the sustainability information on which the firm expresses an opinion.

Sustainability Assurance Clients that are Not Public Interest Entities

- 5604.9 A1 In addition to the factors in paragraph 5604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for a sustainability assurance client is whether the calculation might have a material effect on the sustainability information on which the firm will express an opinion.
- 5604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the sustainability assurance client is not a public interest entity include:
- Using professionals who are not sustainability assurance team members to perform the service.
 - Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

Sustainability Assurance Clients that are Public Interest Entities

- R5604.10** A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client that is a public interest entity if the results of the services will affect the sustainability information on which the firm will express an opinion. (Ref: Para. R5600.15 and R5600.17).

C. Tax Advisory and Tax Planning Services

Description of Service

- 5604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the sustainability assurance client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Sustainability Assurance Clients

- 5604.12 A1 Providing tax advisory and tax planning services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.
- 5604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:
- (a) Are supported by a tax authority or other precedent;
 - (b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
 - (c) Have a basis in tax law that the firm is confident is likely to prevail.
- 5604.12 A3 In addition to paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to sustainability assurance clients, and evaluating the level of such threats include:
- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the sustainability information on which the firm will express an opinion.

- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the sustainability information on which the firm will express an opinion.
- The extent to which the outcome of the tax advice might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.15 applies.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R5604.13 A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client when:

- (a) The effectiveness of the tax advice depends on a particular treatment or presentation in the sustainability information on which the firm will express an opinion; and
- (b) The sustainability assurance team has doubt as to the appropriateness of the related treatment or presentation under the relevant sustainability reporting framework.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.15 A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.12 A2).

Advocacy Threats

5604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

D. Tax Services Involving Valuations

Description of Service

5604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganizations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Sustainability Assurance Clients

5604.17 A1 Providing a valuation for tax purposes to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

- (a) Have no effect on the sustainability information on which the firm will express an opinion, or the records underlying that information, other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
- (b) Affect the sustainability information on which the firm will express an opinion, or the records underlying that information, in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 5603 relating to valuation services apply.

5604.17 A3 Performing a valuation for tax purposes for a sustainability assurance client will not create a self-review threat if:

- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
- (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.18 A1 A firm or a network firm might perform a valuation for tax purposes for a sustainability assurance client that is not a public interest entity where the result of the valuation only affects the sustainability information on which the firm will express an opinion, or the records underlying that information, through adjustments related to tax. This would not usually create threats if the effect on the sustainability information is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

5604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the

effect is material to the sustainability information on which the firm expresses an opinion, in addition to paragraph 5604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to a sustainability assurance client that is not a public interest entity, and evaluating the level of such threats:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

5604.18 A3 Examples of actions that might be safeguards to address such threats for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.19 A firm or a network firm shall not perform a valuation for tax purposes for a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.17 A3).

Advocacy Threats

5604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

5604.20 A1 A non-assurance service to provide assistance to a sustainability assurance client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Sustainability Assurance Clients

5604.21 A1 Providing assistance in the resolution of a tax dispute to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5604.22 A1 In addition to those identified in paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting a sustainability assurance client in the resolution of tax disputes, and evaluating the level of such threats include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the sustainability information on which the firm will express an opinion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.24 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting a sustainability assurance client that is not a public interest entity in the resolution of tax disputes include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court

Sustainability Assurance Clients that are Not Public Interest Entities

R5604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution

of tax disputes to a sustainability assurance client that is not a public interest entity if:

- (a) The services involve acting as an advocate for the sustainability assurance client before a tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the sustainability information on which the firm will express an opinion.

Sustainability Assurance Clients that are Public Interest Entities

R5604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the services involve acting as an advocate for the sustainability assurance client before a tribunal or court.

5604.27 A1 Paragraphs R5604.25 and R5604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

5604.27 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

SUBSECTION 5605 – INTERNAL AUDIT SERVICES

Introduction

5605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an internal audit service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the sustainability assurance client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information relevant to sustainability by:
 - Reviewing the means used to identify, measure, classify and report that financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities relevant to sustainability including non-financial activities of an entity.
- Reviewing compliance with:

- Laws, regulations and other external requirements.
- Management policies, directives and other internal requirements.

5605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. They might involve matters that are operational in nature that will be subject to consideration in relation to the assurance of sustainability information.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R5605.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to a sustainability assurance client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

5605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

5605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Sustainability Assurance Clients

- 5605.4 A1 Providing internal audit services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services impact the assurance of the sustainability information on which the firm will express an opinion.
- 5605.4 A2 When a firm uses the work of an internal audit function in a sustainability assurance engagement, the applicable assurance standards ordinarily require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to a sustainability assurance client, the results of those services might be used in conducting the external assurance of sustainability information. This might create a self-review threat because it is possible that the engagement team will use the results of the internal audit service for purposes of the sustainability assurance engagement without:
- (a) Appropriately evaluating those results; or
 - (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.
- 5605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to a sustainability assurance client, and evaluating the level of such a threat include:
- The materiality of the related sustainability information.
 - The risk of misstatement of the assertions related to that sustainability information.
 - The degree of reliance that the engagement team will place on the work of the internal audit service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5605.6 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

- 5605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

- R5605.6** A firm or a network firm shall not provide internal audit services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).
- 5605.6 A1 Examples of the services that are prohibited under paragraph R5605.6 include internal audit services that relate to:
- The internal controls over sustainability reporting.

- Sustainability information systems that generate information for the client's sustainability information on which the firm will express an opinion or the records underlying that information.
- Amounts or disclosures that relate to the sustainability information on which the firm will express an opinion.

SUBSECTION 5606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

5606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

5606.2 A2 The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over sustainability reporting; or
- (c) Generate information that affects the sustainability information records or sustainability information reported, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the sustainability assurance client's records underlying the sustainability information or the internal control over sustainability reporting.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R5606.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to a sustainability assurance client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems;
- (c) The client evaluates the adequacy and results of the design, development,

implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and

- (d) The client is responsible for operating the IT system and for the data it generates and uses.

5606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the sustainability assurance client. Such services include:
 - Acting as the only access to a financial or non-financial information system of the sustainability assurance client.
 - Taking custody of or storing the sustainability assurance client's data or records such that the sustainability assurance client's data or records are otherwise incomplete.
 - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the sustainability assurance client's data or records.
- Operates, maintains, or monitors the sustainability assurance client's IT systems, network or website.

5606.3 A2 The collection, receipt, transmission and retention of data provided by a sustainability assurance client in the course of a sustainability assurance engagement or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

Potential Threats Arising from the Provision of IT Systems Services

Sustainability Assurance Clients

5606.4 A1 Providing IT systems services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the assurance of the sustainability information on which the firm will express an opinion.

5606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to a sustainability assurance client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's sustainability information on which the firm will express an opinion, the records underlying that information, or internal controls over sustainability reporting.
- The degree of reliance that will be placed on the particular IT systems as part of the sustainability assurance engagement.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5606.6 applies.

5606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect a sustainability assurance client's sustainability information records or system of internal control over sustainability reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting a sustainability assurance client's IT systems, including network and software applications.
- Implementing sustainability information management systems or sustainability information reporting software, whether or not it was developed by the firm or a network firm.

Sustainability Assurance Clients that are Not Public Interest Entities

5606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

R5606.6 A firm or a network firm shall not provide IT systems services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R5600.15 and R5600.17).

SUBSECTION 5607 – LITIGATION SUPPORT SERVICES

Introduction

5607.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a litigation support service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

Potential Threats Arising from the Provision of Litigation Support Services

All Sustainability Assurance Clients

5607.3 A1 Providing litigation support services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to a sustainability assurance client, and evaluating the level of such

threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5607.6 applies.

5607.4 A2 If a firm or a network firm provides a litigation support service to a sustainability assurance client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the sustainability information on which the firm will express an opinion, the requirements and application material set out in Subsection 5603 related to valuation services apply.

Sustainability Assurance Clients that are Not Public Interest Entities

5607.5 A1 An example of an action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to a sustainability assurance client that is not a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5607.6 A firm or a network firm shall not provide litigation support services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

5607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the sustainability information on which the firm will express an opinion.

Advocacy Threats

5607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to a sustainability assurance client that is a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

Acting as a Witness

Sustainability Assurance Clients

5607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

- (a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.
- (b) An expert witness is an individual who gives evidence, including opinions on matters,

to a tribunal or court based on that individual's expertise.

- 5607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves a sustainability assurance client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.
- 5607.7 A3 The advocacy threat created when acting as an expert witness on behalf of a sustainability assurance client is at an acceptable level if a firm or a network firm is:
- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
 - (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
 - (i) The firm's sustainability assurance clients constitute less than 20% of the members of the class or group (in number and in value);
 - (ii) No sustainability assurance client is designated to lead the class or group; and
 - (iii) No sustainability assurance client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

Sustainability Assurance Clients that are Not Public Interest Entities

- 5607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is not a public interest entity is using a professional to perform the service who is not, and has not been, a sustainability assurance team member.

Sustainability Assurance Clients that are Public Interest Entities

- R5607.9** A firm or a network firm, or an individual within a firm or a network firm, shall not act for a sustainability assurance client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 5607.7 A3 apply.

SUBSECTION 5608 – LEGAL SERVICES

Introduction

- 5608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a legal service to a sustainability assurance client.

Requirements and Application Material

Description of Service

- 5608.2 A1 Legal services are defined as any services for which the individual providing the services must either:
- (a) Have the required legal training to practice law; or
 - (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

5608.2 A2 This subsection deals specifically with:

- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Sustainability Assurance Clients

5608.3 A1 Providing legal services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service

5608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to sustainability assurance clients, such as:

- Contract support.
- Supporting a sustainability assurance client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting a sustainability assurance client's internal legal department.
- Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

All Sustainability Assurance Clients

5608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to a sustainability assurance client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's sustainability information reported.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5608.7 applies.

5608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit that will be disclosed in the sustainability information on which the firm will express an opinion.
- Interpreting provisions in contracts that might affect information disclosed in the sustainability information on which the firm will express an opinion.

5608.5 A3 Negotiating on behalf of a sustainability assurance client might create an advocacy threat or

might result in the firm or network firm assuming a management responsibility.

Sustainability Assurance Clients that are Not Public Interest Entities

5608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5608.7 A firm or a network firm shall not provide legal advice to a sustainability assurance client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5608.8 A1 The considerations in paragraphs 5608.5 A1 and 5608.5 A3 to 5608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to a sustainability assurance client that is a public interest entity.

B. Acting as General Counsel

All Sustainability Assurance Clients

R5608.9 An engagement leader or employee of the firm or the network firm shall not serve as General Counsel of a sustainability assurance client.

5608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Sustainability Assurance Clients that are Not Public Interest Entities

R5608.10 A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts or the information involved are material to the sustainability information on which the firm will express an opinion.

5608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.

- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5608.11 A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

SUBSECTION 5609 – RECRUITING SERVICES

Introduction

5609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a recruiting service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R5609.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to a sustainability assurance client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.

- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Sustainability Assurance Clients

- 5609.4 A1 Providing recruiting services to a sustainability assurance client might create a self-interest, familiarity or intimidation threat.
- 5609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:
- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
 - Interviewing candidates and advising on a candidate's competence for sustainability reporting, administrative or control positions.
- 5609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to a sustainability assurance client, and evaluating the level of such threats include:
- The nature of the requested assistance.
 - The role of the individual to be recruited.
 - Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.
- 5609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not sustainability assurance team members to perform the service.

Recruiting Services that are Prohibited

- R5609.5** When providing recruiting services to a sustainability assurance client, the firm or the network firm shall not act as a negotiator on the client's behalf.
- R5609.6** A firm or a network firm shall not provide a recruiting service to a sustainability assurance client if the service relates to:
- (a) Searching for or seeking out candidates;
 - (b) Undertaking reference checks of prospective candidates;
 - (c) Recommending the person to be appointed; or
 - (d) Advising on the terms of employment, remuneration or related benefits of a particular candidate,
- with respect to the following positions:
- (i) A director or officer of the entity; or
 - (ii) A member of senior management in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion or the records underlying that information.

SUBSECTION 5610 – CORPORATE FINANCE SERVICES

Introduction

5610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a corporate finance service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5610.2 A1 Examples of corporate finance services include:

- Assisting a sustainability assurance client in developing corporate strategies.
- Identifying possible targets for the sustainability assurance client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Sustainability Assurance Clients

5610.3 A1 Providing corporate finance services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the sustainability information on which the firm will express an opinion.
- The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the sustainability information on which the firm will express an opinion.
 - The outcome of the corporate finance service might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5610.8 applies.

Corporate Finance Services that are Prohibited

R5610.5 A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the sustainability assurance client or providing advice on investment in such shares, debt or other financial instruments.

R5610.6 A firm or a network firm shall not provide advice in relation to corporate finance services to a sustainability assurance client where:

- (a) The effectiveness of such advice depends on a particular method of measurement or presentation in the sustainability information on which the firm will express an opinion; and
- (b) The sustainability assurance team has doubt as to the appropriateness of the related method of measurement or presentation under the relevant financial or sustainability reporting framework.

Sustainability Assurance Clients that are Not Public Interest Entities

5610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5610.8 A firm or a network firm shall not provide corporate finance services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

CHAPTER 2 – PROPOSED REVISED GLOSSARY

Acceptable level	<p>A level at which a professional accountant or sustainability assurance practitioner using the reasonable and informed third party test would likely conclude that the accountant or the practitioner complies with the fundamental principles.</p>
Advertising	<p>The communication to the public of information as to the services or skills provided by professional accountants in public practice or sustainability assurance practitioners with a view to procuring professional business.</p>
Another Practitioner	<p>A firm, other than the sustainability assurance practitioner's firm, that performs work that the sustainability assurance practitioner intends to use for the purposes of the sustainability assurance engagement, and the sustainability assurance practitioner is unable to be sufficiently and appropriately involved in that work.</p> <p><i>An individual from another practitioner who performs the work is neither a member of the engagement team nor a practitioner's expert.</i></p>
Appropriate reviewer	<p><i>An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant or a sustainability assurance practitioner.</i></p> <p><i>This term is described in paragraphs 300.8 A4 and 5300.8 A4.</i></p>
Assurance client	<p>The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).</p> <p><i>In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "sustainability assurance client."</i></p>
Assurance engagement	<p>An engagement in which a professional accountant in public practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information.</p> <p>(ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and the Assurance Framework provides a general description of assurance engagements to which <i>International Standards on Auditing (ISAs)</i>, <i>International Standards on Review Engagements (ISREs)</i>, <i>International Standards on Assurance Engagements (ISAEs)</i> and <i>International Standards on Sustainability Assurance (ISSAs)</i> apply.)</p>

In Part 4B, the term "assurance engagement" addresses assurance engagements other than audit engagements, review engagements, or sustainability assurance engagements addressed in Part 5.

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
 - (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.

In the case of sustainability assurance engagements addressed in Part 5, see the definition of "sustainability assurance team."

Attestation engagement

An assurance engagement in which a party other than the professional accountant in public practice or the sustainability assurance practitioner, as applicable, measures or evaluates the underlying subject matter against the criteria.

A party other than the accountant or the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the accountant or the practitioner in the assurance report. In an attestation engagement, the accountant's or the practitioner's conclusion addresses whether the subject matter information is free from material misstatement.

The accountant's or the practitioner's conclusion may be phrased in terms of:

- (i) The underlying subject matter and the applicable criteria;
- (ii) The subject matter information and the applicable criteria; or
- (iii) A statement made by the appropriate party.

Audit

In Part 4A, the term "audit" applies equally to "review."

Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity, in accordance with paragraphs R400.22 and R400.23, audit client will always include its related entities. When the

audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. *(See also paragraph R400.27.)*

In Part 4A, the term "audit client" applies equally to "review client."

In the case of a group audit, see the definition of group audit client.

Audit engagement A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with *International Standards on Auditing*. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

In Part 4A, the term "audit engagement" applies equally to "review engagement."

Audit report *In Part 4A, the term "audit report" applies equally to "review report."*

Audit team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term "audit team" applies equally to "review team." In the case of a group audit, see the definition of group audit team.

Close family A parent, child or sibling who is not an immediate family member.

Component (Audit and Review Engagements) For a group audit, an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in the group audit.

Component (Sustainability Assurance Engagements Addressed in the IIS in Part 5)	<p>For a group sustainability assurance engagement, 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 the group sustainability assurance engagement. A component is either a group component or a value chain component.</p> <p><i>Group component – in the context of a sustainability assurance engagement in Part 5, see separate definition.</i></p> <p><i>Value chain component – in the context of a sustainability assurance engagement in Part 5, see separate definition.</i></p>
Component audit client	<p>A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is:</p> <ul style="list-style-type: none"> (a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control; or (b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.
Component auditor firm	The firm performing audit work related to a component for purposes of a group audit.
Component practitioner	A firm that performs assurance work related to a component for purposes of the group sustainability assurance engagement, and the group sustainability assurance firm is able to be sufficiently and appropriately involved in that work. References to a component practitioner include, when applicable, individuals from that firm. The individuals from a component practitioner who perform the assurance work are members of the engagement team.
Conceptual framework	<i>This term is described in Sections 120 and 5120.</i>
Confidential information	Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Cooling-off period	<i>This term is described in paragraphs R540.7 and R5540.7 for the purposes of paragraphs R540.13 to R540.21 and R5540.13 to R5540.21.</i>

Criteria	In an assurance engagement, including a sustainability assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement.
Direct engagement	An assurance engagement in which the professional accountant in public practice measures or evaluates the underlying subject matter against the applicable criteria and the accountant presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the accountant's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
Direct financial interest	A financial interest: <ul style="list-style-type: none"> (a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or (b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit engagement	<i>This term is described in paragraph 800.2 for the purposes of Section 800.</i>
Eligible assurance engagement	<i>This term is described in paragraph 990.2 for the purposes of Section 990.</i>
Engagement leader	An individual, appointed by the firm, who is responsible for the sustainability assurance engagement and its performance, and for the sustainability assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. "Engagement leader" should be read as referring to its public sector equivalent where relevant. <i>In the case of audit and review engagements, see the definition of "engagement partner."</i>
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "engagement leader."

Engagement period (Audit and Review Engagements)	The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.
Engagement period (Sustainability Assurance Engagements Addressed in the IIS in Part 5)	The engagement period starts when the sustainability assurance team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.
Engagement period (Assurance Engagements Other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in the IIS in Part 5)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.
Engagement quality review	An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
Engagement quality reviewer	A leader or partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
Engagement team	All leaders or partners and staff performing the engagement, and any other

individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.

In Part 4A, the term "engagement team" refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9.

ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.

ISA 620 defines an auditor's expert as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA 620 deals with the auditor's responsibilities relating to the work of such experts.

ISA 610 (Revised 2013) deals with the auditor's responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.

In Part 4B, the term "engagement team" refers to individuals performing assurance procedures on the assurance engagement.

In Part 5, the term "engagement team" refers to individuals performing assurance procedures on the sustainability assurance engagement. This excludes individuals whose work the sustainability assurance practitioner is not able to be sufficiently and appropriately involved in (e.g., individuals from "another practitioner"). This term is further described in paragraph 5400.9 in Part 5.

Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, tax, consulting or similar professional services for a client.
Existing practitioner	An individual or an entity currently holding an appointment to perform a sustainability assurance engagement or carrying out other professional services for a sustainability assurance client.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance

sheet, or a statement of revenues and expenses, and related explanatory notes.

The term does not refer to specific elements, accounts or items of a financial statement.

Financial statements on which the firm will express an opinion

In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

Firm

- (a) A sole practitioner, partnership or corporation of professional accountants or sustainability assurance practitioners;
- (b) An entity that controls such parties, through ownership, management or other means; and
- (c) An entity controlled by such parties, through ownership, management or other means.

Paragraphs 400.4 and 900.3 explain how the word "firm" is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.

Paragraph 5400.4 explains how the word "firm" is used to address the responsibility of individual sustainability assurance practitioners and firms for compliance with Part 5.

Fundamental principles

This term is described in paragraphs 110.1 A1 and 5110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:

Integrity *R111.1 and R5111.1*

Objectivity *R112.1 and R5112.1*

Professional competence and due care *R113.1 and R5113.1*

Confidentiality *R114.1 to R114.3 and R5114.1 to R5114.3*

Professional behavior *R115.1 and R5115.1*

General purpose framework

A reporting framework designed to meet the common information needs of a wide range of users. The framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the reported information, it may be necessary for management to

provide disclosures beyond those specifically required by the framework; or

- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the reported information. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments in (a) or (b) above.

In Part 5, general purpose framework refers to general purpose sustainability reporting frameworks.

Group A reporting entity for which group financial statements or group sustainability information is prepared.

Group audit The audit of group financial statements.

Group audit client The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a publicly traded entity, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a publicly traded entity, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

See also paragraph R400.27.

Group auditor firm The firm that expresses the opinion on the group financial statements.

Group audit team (a) All members of the engagement team for the group audit, including individuals within, or engaged by, component auditor firms who perform audit procedures related to components for purposes of the group audit;

(b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);

(ii) Those who provide consultation regarding technical or

industry-specific issues, transactions or events for the group audit; and

(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;

(c) Any other individuals within a network firm of the group auditor firm's network who can directly influence the outcome of the group audit; and

(d) Any other individuals within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit.

Group component (for a sustainability assurance engagement)	<p>A group component is a component required to be included in the reporting entity's group financial statements.</p> <p>If the group component is:</p> <p>(a) A legal entity, it is the entity and any related entities within the reporting boundary over which the entity has direct or indirect control; or</p> <p>(b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.</p>
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Addition to the Basis for Conclusions

(to be added after paragraph 90 of Agenda Item 2-B)

At the September and November IESBA meetings, a few questions were raised as to whether a VCC at which a firm or component practitioner performs assurance work for purposes of the group sustainability assurance engagement would constitute a group component when the client has an immaterial investment in that component. If that were the case, there was a concern that the application of the more stringent independence requirements for group components would not be proportionate. In response, the IESBA clarified that this was not the intent and that group components do not include immaterial investments carried at cost or fair value (as permitted or required by applicable accounting standards) on the reporting entity's balance sheet.

The Task Force coordinated this matter with IAASB Sustainability Task Force representatives, who affirmed IESBA's view, i.e., a passive investment in a value chain entity would not make the entity a group component. The IESBA notes that from an assurance perspective, a group component can only be "a component that includes entities or business units whose financial information is required to be included in the reporting entity's group financial statements." This is consistent with the definition of group financial statements in ISA 600 (Revised): "Financial statements that include the financial information of more than one entity or business unit through a consolidation process."

Group	The engagement leader who is responsible for the group sustainability
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engagement leader	assurance engagement.
Group engagement partner	The engagement partner who is responsible for the group audit.
Group financial statements	Financial statements that include the financial information of more than one entity or business unit through a consolidation process.
Group sustainability assurance client	<p>The entity on whose group sustainability information the group sustainability assurance firm conducts a sustainability assurance engagement. When the entity is a publicly traded entity, the group sustainability assurance client will always include its related entities and any other group components at which assurance work is performed. When the entity is not a publicly traded entity, the group sustainability assurance client includes related entities over which such entity has direct or indirect control and any other group components at which assurance work is performed.</p> <p><i>See also paragraph R5400.27.</i></p>
Group sustainability assurance engagement	An assurance engagement on group sustainability information.
Group sustainability assurance firm	The firm that expresses the opinion on the group sustainability information.
Group sustainability assurance team	<p>(a) All members of the engagement team for the group sustainability assurance engagement, including individuals within, or engaged by, component practitioners who perform assurance procedures related to components for purposes of the group sustainability assurance engagement;</p> <p>(b) All others within, or engaged by, the group sustainability assurance firm who can directly influence the outcome of the group sustainability assurance engagement, including:</p> <ul style="list-style-type: none"> (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement leader in connection with the performance of the group sustainability assurance engagement, including those at all successively senior levels above the group engagement leader through to the individual who is the firm's Chief Executive or equivalent; (ii) Those who provide consultation regarding technical or

	<p>industry-specific issues, transactions or events for the group sustainability assurance engagement; and</p> <p>(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group sustainability assurance engagement;</p> <p>(c) Any other individuals within a network firm of the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement; and</p> <p>(d) Any other individuals within a component practitioner outside the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement.</p>
Group sustainability information	Sustainability information that includes the sustainability information of more than one entity or business unit.
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.
Independence	<p>Independence comprises:</p> <p>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit, assurance, or sustainability assurance team member's, integrity, objectivity or professional skepticism has been compromised.</p> <p><i>As set out in paragraphs 400.5, 900.4, and 5400.5 references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A, 4B and 5, as applicable.</i></p>
Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Inducement	<p>An object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior.</p> <p><i>Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business), between professional accountants and existing or prospective clients (for professional accountants in public practice), or between sustainability assurance practitioners and existing or prospective sustainability assurance clients, to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</i></p> <ul style="list-style-type: none"> • <i>Gifts.</i> • <i>Hospitality.</i> • <i>Entertainment.</i> • <i>Political or charitable donations.</i> • <i>Appeals to friendship and loyalty.</i> • <i>Employment or other commercial opportunities.</i> • <i>Preferential treatment, rights or privileges.</i>
Key audit partner	<p>The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions.</p>
Key sustainability assurance leader	<p>The engagement leader, the individual responsible for the engagement quality review, and other leaders, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the sustainability assurance engagement. Depending upon the circumstances and the role of the individuals on the sustainability assurance engagement, "other leaders" might include, for example, engagement leaders for certain group components in a group sustainability assurance engagement such as significant subsidiaries or divisions.</p> <p><i>A sustainability assurance leader performing assurance work at a value chain component is not, as a result of that role, a key sustainability assurance leader for purposes of the group sustainability assurance engagement.</i></p>
Leader	<p>Any individual with authority to bind a firm with respect to the performance of a professional service.</p> <p><i>This term is used in the context of sustainability assurance engagements in</i></p>

Part 5.

May	<i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</i>
Might	<i>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.</i>
Network	<p>A larger structure:</p> <ul style="list-style-type: none">(a) That is aimed at co-operation; and(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
Network firm	<p>A firm or entity that belongs to a network.</p> <p><i>For further information, see paragraphs 400.50 A1 to 400.54 A1 in Part 4A and paragraphs 5400.50 A1 to 5400.54 A1 in Part 5.</i></p>
Non-compliance with laws and regulations (Professional Accountants in Business)	<p><i>Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i></p> <ul style="list-style-type: none">(a) <i>The professional accountant's employing organization;</i>(b) <i>Those charged with governance of the employing organization;</i>(c) <i>Management of the employing organization; or</i>(d) <i>Other individuals working for or under the direction of the employing organization.</i> <p><i>This term is described in paragraph 260.5 A1.</i></p>
Non-compliance with laws and regulations (Professional Accountants in Public Practice)	<p><i>Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i></p> <ul style="list-style-type: none">(a) <i>A client;</i>(b) <i>Those charged with governance of a client;</i>(c) <i>Management of a client; or</i>

(d) *Other individuals working for or under the direction of a client.*

This term is described in paragraph 360.5 A1.

Non-compliance with laws and regulations
Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(Sustainability Assurance Practitioners)

- (a) *A sustainability assurance client;*
- (b) *Those charged with governance of a sustainability assurance client;*
- (c) *Management of a sustainability assurance client; or*
- (d) *Other individuals working for or under the direction of a sustainability assurance client.*

This term is described in paragraph 5360.5 A1.

Office
A distinct sub-group, whether organized on geographical or practice lines.

Predecessor accountant
A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.

Predecessor practitioner
An individual or an entity who most recently held an appointment to perform a sustainability assurance engagement or carried out other professional services for a sustainability assurance client, where there is no existing practitioner.

Professional accountant
An individual who is a member of an IFAC member body.
In Part 1, the term "professional accountant" refers to individual professional accountants in business and to professional accountants in public practice and their firms.
In Part 2, the term "professional accountant" refers to professional accountants in business.
In Parts 3, 4A and 4B, the term "professional accountant" refers to professional accountants in public practice and their firms.

Professional accountant in business
A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.

Professional accountant in public practice
A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.
The term "professional accountant in public practice" is also used to refer to

a firm of professional accountants in public practice.

Professional activity An activity requiring professional skills undertaken by a professional accountant or a sustainability assurance practitioner, including accounting, auditing, sustainability reporting or assurance, tax, consulting, and financial management.

Professional judgment *Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.*

This term is described in paragraphs 120.5 A4 and 5120.5 A4.

Professional services Professional activities performed for clients.

Proposed accountant A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).

Proposed practitioner A sustainability assurance practitioner who is considering accepting an appointment to perform a sustainability assurance engagement or carry out other professional services for a prospective sustainability assurance client (or in some cases, an existing sustainability assurance client).

Public interest entity For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.23 A1 and 400.23 A2.

Publicly traded entity An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

Reasonable and informed third party	<i>The reasonable and informed third party test is a consideration by the professional accountant or the sustainability assurance practitioner about whether the same conclusions would likely be reached by another party.</i>
Reasonable and informed third party test	<i>Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant or the sustainability assurance practitioner knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant or a sustainability assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's or sustainability assurance practitioner's conclusions in an impartial manner.</i> <i>These terms are described in paragraphs 120.5 A9 and 5120.5 A9.</i>
Related entity	An entity that has any of the following relationships with the client: <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client if the client is material to such entity; (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; (c) An entity over which the client has direct or indirect control; (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity
Reporting boundary	Activities, operations, relationships or resources to be included in the entity's sustainability information.
Responsible party	In an assurance engagement, the party responsible for the underlying subject matter.
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with <i>International Standards on Review Engagements</i> or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review team	<ul style="list-style-type: none"> (a) All members of the engagement team for the review engagement; and (b) All others within, or engaged by, the firm who can directly influence the outcome of the review engagement, including: <ul style="list-style-type: none"> (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and (c) Any other individuals within a network firm who can directly influence the outcome of the review engagement.
Safeguards	<p><i>Safeguards are actions, individually or in combination, that the professional accountant or the sustainability assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i></p> <p><i>This term is described in paragraphs 120.10 A2 and 5120.10 A2.</i></p>
Senior professional accountant in business	<p><i>Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.</i></p> <p><i>This term is described in paragraph 260.11 A1.</i></p>
Special purpose financial statements	<p>Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.</p>
Subject matter information	<p>The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.</p>
Substantial harm	<p><i>This term is described in paragraphs 260.5 A3, 360.5 A3 and 5360.5 A3.</i></p>

Sustainability assurance client	An entity in respect of which a firm conducts a sustainability assurance engagement. When the client is a publicly traded entity, sustainability assurance client will always include its related entities. When the sustainability assurance client is not a publicly traded entity, sustainability assurance client includes those related entities over which the client has direct or indirect control. (See also paragraph R5400.27.)
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Sustainability assurance engagement	An engagement in which a sustainability assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information.
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A sustainability assurance engagement can be either a:

- Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the underlying subject matter against applicable criteria; or
- Limited assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the sustainability information to a degree that is clearly more than inconsequential.

Sustainability assurance practitioner	The individual(s) conducting a sustainability assurance engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm).
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| Sustainability assurance team | <p>(a) All members of the engagement team for the sustainability assurance engagement;</p> <p>(b) All others within, or engaged by, the firm who can directly influence the outcome of the sustainability assurance engagement, including:</p> |
|-------------------------------|--|

- (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement leader in connection with the performance of the sustainability assurance engagement, including those at all successively senior levels above the engagement leader through to the individual who is the firm's Chief Executive;
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the sustainability assurance engagement.

Sustainability
information

Information about sustainability matters.

Sustainability matters are environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information.

Sustainability information includes information that may be:

- *Expressed in financial or non-financial terms.*
- *Historical or forward-looking.*
- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain.*
- *Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.*
- *Described in an entity's governance structure, policies, plans, goals, commitments or representations.*
- *About the effects (including risks and opportunities) of environmental, social, governance or other sustainability-related matters on an entity's business model, activities, services or products.*
- *About the effects of an entity's business model, activities, services or products on the environment, society or economy.*

Those charged
with
governance

The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process or the sustainability reporting process, as applicable. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public

sector entity, or an owner-manager.

Threats *This term is described in paragraphs 120.6 A3 and 5120.6 A3 and includes the following categories:*

<i>Self-interest</i>	<i>120.6 A3(a) and 5120.6 A3(a)</i>
<i>Self-review</i>	<i>120.6 A3(b) and 5120.6 A3(b)</i>
<i>Advocacy</i>	<i>120.6 A3(c) and 5120.6 A3(c)</i>
<i>Familiarity</i>	<i>120.6 A3(d) and 5120.6 A3(d)</i>
<i>Intimidation</i>	<i>120.6 A3(e) and 5120.6 A3(e)</i>

Time-on period *This term is described in paragraphs R540.7 in Part 4A and R5540.7 in Part 5*

Underlying subject matter The phenomenon that is measured or evaluated by applying criteria.

Value Chain The value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.
The value chain might include, for example, certain sustainability assurance client's customers and suppliers for sustainability reporting purposes.

Value chain component (for a sustainability assurance engagement) A value chain component is a component within the reporting entity's value chain that is not included in the group financial statements.
If the value chain component is:
(a) A legal entity, it is the entity; or
(b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

CHAPTER 3 – PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS TO INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

(....)

Assurance Engagements other than Audit and Review Engagements

400.17 Independence standards for assurance engagements that are not audit or review engagements are set out in:

- Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5.*
- Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards)*

(...)

Network Firms

R400.54 If a firm or a network sells a part of its practice, and that part continues to use wholly or partly the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a part of a practice might provide that, for a limited period of time, that part can continue to use wholly or partly the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

(...)

SECTION 410

FEES

Introduction

(....)

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

- 410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.
- 410.11 A2 Factors that are relevant in evaluating the level of such threats include:
- The ratio of fees for services other than audit to the audit fee.
 - The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
 - The nature, scope and purposes of the services other than audit, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.
- 410.11 A2a Where a firm or a network firm provides a sustainability assurance engagement addressed in the International Independence Standards in Part 5, the fee for that sustainability assurance engagement does not impact the level of the self-interest threat or intimidation threat created by the proportion of fees for services other than audit to the audit fee.
- 410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:
- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
 - Reducing the extent of services other than audit provided to the audit client.
- (...)

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

(....)

Introduction

- 540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 540.2 When an individual is involved in an audit engagement, or a combination of audit and sustainability assurance engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 540.3 A1 References in this Section to key sustainability assurance leader, sustainability assurance team and sustainability assurance engagement are in the context of sustainability assurance

engagements within the scope of the International Independence Standards in Part 5.

All Audit Clients

- 540.4 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member or sustainability assurance team member with:
- (a) The audit client and its operations;
 - (b) The audit client's senior management; or
 - (c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.
- 540.4A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 540.4 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
 - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
 - How long the individual has been an engagement team member for the audit engagement or sustainability assurance engagement, and the nature of the roles performed.
 - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
 - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.
 - The closeness of the individual's personal relationship with senior management or those charged with governance.
 - The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.
 - (b) In relation to the audit client:
 - The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
 - Whether there have been any recent changes in senior management or those charged with governance.
 - Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.
- 540.4 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between

an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.4 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement, or a combination of audit and sustainability assurance engagements for the same client, over a long period of time would be rotating the individual off the audit team.

540.4 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R540.5 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.7 to R540.22 also apply.

R540.6 Where an individual is a member of both the audit team and the sustainability assurance team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the audit team and the sustainability assurance team, the firm shall, in addition to complying with paragraph R540.5, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the sustainability assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement; or
- (c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.7 to R540.22 also apply.

Audit Clients that are Public Interest Entities

R540.7 Subject to paragraphs R540.9 to R540.11, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time-on" period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for performing the engagement quality review;
- (c) Any other key audit partner role; or

(d) A key sustainability assurance leader.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.13 to R540.21.

R540.8 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.7(a) to (d) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.13 to R540.15 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.8 A1 For example,

- An individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.17.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client’s financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R540.18.

R540.9 As an exception to paragraph R540.7, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.9 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.10 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner or a key sustainability assurance leader before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner or a key sustainability assurance leader for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in the capacity of a key audit partner before rotating off the audit engagement is seven years less the number of years already served. As an exception to paragraph R540.7, if the individual has served the audit client as a key audit partner or a key sustainability assurance leader for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in the capacity of a key audit partner with the concurrence of those charged with governance for a maximum of two additional years before rotating off the audit engagement.

R540.11 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.7, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such

circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

- R540.12** In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement or the sustainability assurance engagement for the same client prior to the individual becoming a key audit partner.
- 540.12 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

- R540.13** If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.
- R540.14** Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.
- R540.15** If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.13 and R540.14 for seven cumulative years, the cooling-off period shall be two consecutive years.
- 540.16 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner or key sustainability assurance leader roles

- R540.17** If the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the engagement partner or engagement leader for four or more cumulative years, the cooling-off period shall be five consecutive years.
- R540.18** Subject to paragraph R540.19(a), if the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the key audit partner or key sustainability assurance leader responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.
- R540.19** If an individual has acted in a combination of engagement partner, engagement leader and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:
- (a) As an exception to paragraph R540.18, be five consecutive years where the individual has been the engagement partner or engagement leader for three or more years; or
 - (b) Be three consecutive years in the case of any other combination.
- R540.20** If the individual acted in any combination of key audit partner or key sustainability assurance leader roles other than those addressed in paragraphs R540.17 to R540.19, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R540.21 In determining the number of years that an individual has been a key audit partner or a key sustainability assurance leader as set out in paragraph R540.7, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on the audit engagement or a key sustainability assurance leader on the sustainability assurance engagement for the same client at a prior firm.

[Paragraph R540.22 Intentionally left blank]

Restrictions on Activities During the Cooling-off Period

R540.23 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement or the sustainability assurance engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement or sustainability assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit engagement or sustainability assurance engagement);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement or sustainability assurance engagement.

540.23 A1 The provisions of paragraph R540.23 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS ADDRESSED IN PART 5

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS WITHIN THE SCOPE OF THE INTERNATIONAL INDEPENDENCE STANDARDS IN PART 5

Introduction

General

900.1 This Part applies to assurance engagements other than audit engagements, review engagements, and sustainability assurance engagements within the scope of the International Independence Standards in Part 5. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, other than assurance on sustainability information within the scope of the International Independence Standards in Part 5.
- An audit of specific elements, accounts or items of a financial statement.
- A sustainability assurance engagement that is not within the scope of the International Independence Standards in Part 5, for example:
 - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with a framework designed to meet the information needs of specified users.
 - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with entity-developed criteria.
 - A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

(...)

Audit and Review Engagements

900.10 Independence standards for audit and review engagements are set out in Part 4A – Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

Sustainability Assurance Engagements Addressed in Part 5

- 900.11 Part 5 sets out independence standards for certain sustainability assurance engagements. If a firm performs both a sustainability assurance engagement within the scope of the International Independence Standards in Part 5 and another assurance engagement within the scope of this Part for the same client, the requirements in Part 5 continue to apply to the firm, a network firm and the sustainability assurance team members.

EFFECTIVE DATE

- Except for the provisions ~~in Sections 5405 and 5406 in Subsection B of Section 5405~~ applicable to assurance work performed at value chain components ~~as set out below~~, the provisions in Chapters 1 to 3 will be effective for sustainability assurance engagements on sustainability information for periods beginning on or after December 15, 2026, or as at a specific date on or after December 15, 2026.
- The revisions in Chapter 4 will be effective as of December 15, 2026.

The provisions ~~in Subsection B of Section 5405 in Sections 5405 and 5406~~ applicable when assurance work is performed at a value chain component will be effective for sustainability assurance engagements on sustainability information for periods beginning on or after ~~December 15, 2027~~ July 1, 2028, or as at a specific date on or after ~~December 15, 2027~~ July 1, 2028. For sustainability assurance engagements on sustainability information for periods beginning, or as at a specific date, prior to ~~December 15, 2027~~ July 1, 2028 that involve assurance work performed at a value chain component:

- (a) A firm or component practitioner that performs assurance work at a value chain component shall ~~remains subject to the requirement to~~ apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to such assurance work;
- (a)(b) ~~If the firm intends to use the assurance work of another practitioner, the firm may rely on a statement of independence in the practitioner's assurance report, or other assertion of independence, to be satisfied about that practitioner's independence;~~ and
- (b)(c) The firm shall publicly disclose that specific independence provisions applicable to assurance work performed at value chain components under the IESSA have not been applied, pursuant to a deferred effective date for such provisions as specified in the IESSA.

Early adoption of the provisions in Chapters 1 to 4 is permitted and encouraged.

Addition to the Basis for Conclusions

(to replace paragraph 100 in Agenda Item 2-B)

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. The IESBA agreed to an 18-month deferral of the effective date of the provisions in Sections 5405 and 5406 applicable to assurance work at a VCC to support and facilitate market transition to the independence regime applicable under the IESSA. The deferral could provide time for the IESBA to monitor the evolution of the practice with respect to ways for performing assurance work at a VCC and determine whether the provisions in Sections 5405 and 5406 still appropriately address the independence considerations related to the assurance work at a VCC and whether they are in the public interest.

The deferral would not mean that for that period the IESSA would not provide relevant ethical requirements when a group sustainability assurance firm or a component practitioner performs assurance work at a VCC, or when a group sustainability assurance firm intends to use the assurance work of another practitioner performed at a VCC. The sustainability assurance provider may only use the proposed option for a deferral if the practitioner still complies with the criteria set out in points a) to c) with respect to the SAP's independence

Transitional Provisions

If a firm has not served as the auditor of the financial statements, [the requirement in](#) paragraph R5540.10a also applies where the firm will perform a sustainability assurance engagement on sustainability information for a period beginning prior to December 15, 2026.

For non-assurance services engagements a firm or network firm has entered into with a sustainability assurance client before December 15, 2026 which would be prohibited under Section 5600 and its subsections but for which work has already commenced, the firm or network firm may continue such engagements in accordance with the original engagement terms for no more than one reporting cycle.

A firm might apply the provisions in Chapters 1 to 3 before their effective date. In such a case, if the firm intends to use the assurance work of another practitioner performed for a standalone or group sustainability assurance engagement and the other practitioner has complied with the independence provisions of Part 4B in relation to that work, the firm may treat a confirmation or statement of such compliance from the other practitioner as satisfying the requirements of Section 5406 of Part 5.