



PIOB’s Public Interest Issues - IESBA projects

(document updated as of January 2025)

The PIOB’s Public Interest Issues presented in this document are based on the status of IESBA’s projects after the IESBA December 2024 meeting and the PIOB meeting in January 2025. For each selected project, brief background information and project status are provided, followed by the identified Public Interest Issues. The Public Interest Issues may contain questions or concerns relating to the responsiveness of specific initiatives and projects to the public interest. We encourage the IESBA to consider these questions and concerns during the due process of developing the relevant standards.

For further information and details about the IESBA projects, please refer to the website: <https://www.ethicsboard.org/consultations-projects>.

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Use of main acronyms

Code	The IESBA’s Code of Ethics
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ISA	International Auditing Standards
ISSA	International Standard on Sustainability Assurance
PIOB	Public Interest Oversight Board

1. SUSTAINABILITY REPORTING AND ASSURANCE

Background

Following the PIOB certification of the IESBA and IAASB sustainability standards, market participants and policymakers around the world now have a robust global baseline to instill confidence in sustainability reporting. Sustainability reporting has wide relevance for users both within and outside of capital markets and it requires additional information sources and the exercise of key judgments beyond financial reporting. There are also heightened risks, such as greenwashing, where organizations might seek to misrepresent their performance. Avoiding such risks, which could undermine public trust and capital flows into sustainable development, is clearly in the public interest.

The new IESBA sustainability standards for robust and consistent ethics and independence for sustainability reporting and assurance has been developed in an accelerated timeline, to meet, to the greatest extent possible, the expectations of users placing reliance on reported information. The next step is a successful implementation of the sustainability standards, which will not only require further work of the IESBA, but also significant input from assurance practitioners, regulators, preparers and those charged with governance¹.

As sustainability reporting and assurance is at the start of a long journey and the new IESBA standards are central to this journey, it will necessarily need to evolve in line with public interest needs. The PIOB is encouraging all stakeholders to share feedback from implementation, draw key lessons from experience, to enable timely refinements and, ideally, simplifications to the standards.

Status

In January 2025 the PIOB certified the standard *“International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting”* (also referred to as the “standards” in this section), which was approved at the December 2024 IESBA meeting. The Public Interest Issues below reflect the key background noted above and highlight those areas that require further refinement in the context of necessary evolution of the standard.

¹ *The PIOB notes that, in the context of implementation of the global standards on ethics and independence for sustainability reporting and assurance, there are public interest matters beyond the remit of the IESBA. The implementation will require a robust level of public interest oversight, where regulators and those charged with governance have a role to ensure that preparers of the sustainability information as well as assurance practitioners have the appropriate skills and experience and comply with ethical reporting and assurance standards.*

1.1. Supporting implementation through monitoring and rapid response

As sustainability reporting and assurance is a relatively new field, it is foreseen that questions will arise and necessary clarifications will be needed across jurisdictions as sustainability practitioners start implementing the standards. Such challenges might arise, for example, in respect of expected involvement of those practitioners who are less familiar with IESBA standards or in relation to the deferral of the effective date of the independence clauses for value chain components.

The PIOB encourages the IESBA to create a fit-for-purpose formal monitoring and rapid response mechanism(s) to identify implementation issues and to respond to them accordingly. Engaging with all relevant stakeholders in this exercise will help ensure success in the standards' adoption through wide collaboration within the sustainability ecosystem. In this context, the PIOB emphasizes the need for on-going cooperation between the IESBA and the IAASB in view of the interoperability of their respective sustainability standards.

The formal monitoring mechanism(s) should lead to timely and regular public reporting of matters that enable an understanding of the issues being encountered and allow the IESBA to consider the need for any timely refinements, simplifications or other improvements to the standards.

1.2. Scope of new Part 5 and applicability of Part 4B of the Code

The certified standards have been scoped to cover specific types of assurance on sustainability information as defined in the new Part 5 of the Code. While this approach is appropriate to have a global baseline at this point of time, further work is needed to achieve consistency in the standard's application for all sustainability assurance practitioners. The PIOB acknowledges that there remains a difference in the application of the Code between professional accountants on one hand, and other practitioners who are not professional accountants, on the other:

- Both professional accountants and other practitioners have to follow Part 5, which covers specific types of assurance on sustainability reporting with respect to sustainability information that is reported according to a general-purpose framework; required according to law or regulation; or publicly disclosed to support investors' and other stakeholders' decision making.
- Only professional accountants have to follow Part 4B, which relates to other sustainability assurance services which are not covered under the scope of independence requirements in Part 5. Other practitioners are only encouraged to apply the requirements of Part 4B.

It is in the public interest, for the benefit of users of reliable and trustworthy sustainable information and the quality of its assurance, to have a level playing field for all

sustainability assurance practitioners, i.e. both professional accountants and other sustainability assurance practitioners, who should be subject to the same requirements, for all sustainability assurance engagements, even for those which are not covered in the scope of independence requirements in Part 5.

The PIOB acknowledges the commitment of IESBA to address this matter within the current Strategy and Work Plan 2024-2027, taking into account considerations in relation to the expansion of the scope of the Code, as further described in section 4 of this document.

1.3. Categorization of sustainability assurance and independence

The certified Standard addresses, to a large extent, the concerns previously expressed by the PIOB relating to the categorization of sustainability assurance engagements. These concerns were raised in respect of possibly imposing too stringent independence requirements in situations where the sustainability assurance and financial audit by the same assurance practitioner.

In this context, the standards treat the sustainability assurance fees in the same way as statutory audit fees, however only in instances where the sustainability assurance falls within the scope of Part 5 of the Code, i.e. assurance with respect to sustainability information that is reported according to a general-purpose framework; required according to law or regulation; or publicly disclosed to support investors' and other stakeholders' decision making. In instances where sustainability assurance is outside the scope of Part 5, the sustainability assurance fees are classified as fees for non-audit services, which implies the application of the Code's provisions on threats to the financial auditor's independence.

As sustainability assurance and financial audit, both of which are assurance services, are performed in the public interest and are in principle compatible, the PIOB is concerned that classifying the mentioned sustainability assurance engagements as a non-audit service could be challenged from the conceptual point of view and result in adverse unintended consequences on the market. The PIOB therefore encourages the IESBA to articulate and fully explain its approach going forward.

1.4. Strengthening NOCLAR communication

The certified standards require communication on suspected or actual non-compliance with laws and regulations (NOCLAR), from the sustainability assurance practitioner to the financial statements auditor, or vice versa, unless prohibited by law or regulation. This requirement is currently only applicable if the sustainability assurance client is also an audit client, or a component of an audit client, of the same firm. In other instances, the standard only requires that the assurance practitioner shall

consider whether to communicate, which is consistent with the general approach of the Code.

In this context, the PIOB acknowledges the IESBA's plan to expand and strengthen this requirement in a holistic way and in the near term, as described below.

Two-way NOCLAR communication between the financial statements auditor and sustainability assurance practitioner, in all instances

The PIOB underlines the importance of two-way communication between different assurance practitioners to ensure adequate and timely follow-up of identified instances of suspected, or actual, NOCLAR, which may include suspected greenwashing, in both the financial statements audit and the sustainability assurance engagement.

While communication may be easier in instances where the group and component sustainability assurance practitioners, as well as the financial statements auditor are from the same firm, the communication is necessary in all instances to address the risk of an uneven level-playing field for all assurance arrangements.

Two-way communication between the group sustainability assurance practitioner and assurance practitioners of the value chains

The PIOB notes that the approved standards only contain requirements for communication between the group sustainability assurance team and sustainability assurance practitioners of group components. There is no required communication by another practitioner performing work for the group assurance practitioner at a value chain component.

The PIOB encourages the IESBA to address the need for timely broader two-way communication in the context of NOCLAR between all relevant assurance practitioners. The PIOB notes that the IESBA has committed to address the NOCLAR communication matter throughout the Code in a holistic manner during a planned NOCLAR post-implementation review which will start in 2025, per the current version of Strategy and Work Plan 2024-2027.

2. FIRM CULTURE AND GOVERNANCE

Background

This is a relatively new project included in the Strategy and Work Plan 2024-27 due to a clear need to respond to persistent cases of unethical behavior within firms and to consider the broader issue of firm culture and governance and how these might impact the ethical behavior and compliance with the Code. The PIOB has expressed strong support for this project.

Status

Work on the topic of Firm Culture and Governance was discussed for the first time during the March 2024 IESBA meeting and again tabled at the following IESBA meetings in 2024. At its December 2024 meeting the IESBA considered and accepted the Firm Culture and Governance Working Group's final report. In light of the Working Group's recommendations, the IESBA approved a project proposal with an expectation to issue an exposure draft in December 2025 and the final standard by the end of 2026. Two workstreams are envisaged, one being a standard-setting project and the other focused on developing non-authoritative material.

The Public Interest Issues outlined below were expressed prior to the IESBA's approval of the project proposal and will be subject to discussion by the PIOB and updated accordingly.

2.1. Scope and goals of the project

While recognizing the importance of fact-finding, the PIOB encourages the IESBA to clearly articulate the risks impacting the public interest which the project intends to address and specifically the behaviors which give rise to such risks. This articulation will focus the fact-finding and support the scoping of any proposed sections of the Code to be developed or revised. In turn, this will help ensure that the Code can be enhanced in a timely way within the timeframe of the Strategy and Work Plan 2024-2027.

The PIOB supports the intention of the IESBA addressing risks which arise within legal structures used by firms in the market, with attention to their interplay with incentives for unethical behavior and corporate governance arrangements, but it is important that the IESBA remains within its remit and leaves the regulation of legal structures to regulators. The PIOB supports the IESBA's focus on ensuring the ethical behavior of individuals of different backgrounds and expertise within the firm and ethical functioning of governance arrangements.

The PIOB welcomes the IESBA's decision to consider all service lines within the firm, including audit, rather than a narrow approach focused only on the audit service line of the firm. An ethical culture that is integrated in the firm's strategy covering all service lines with supporting performance indicators, measurement and monitoring can guide a systematic approach to continuous improvement. Considering these factors, the project will more completely address "firms" as the market-facing multi-service practitioners they are in reality. It could thereby take into consideration the interplay between traditional service lines such as audit with others that are not necessarily undertaken by professional accountants. Equally, it is important to cover arrangements within and across jurisdictions often housed under "network" arrangements.

The PIOB supports a wide fact-finding approach but cautions against potential distraction into matters outside the remit of the IESBA. It is important from the public interest perspective to consider the diversity of market experiences across jurisdictions. Case studies relating to a limited number of national frameworks are useful but must not unduly influence the standard-setting process by constraining consideration of potential amendments of the Code for global benefit.

2.2. Achievement of behavioral changes

Clearly defined objectives of the project should be aimed at instilling behavioral changes in specific areas through focused amendments of the Code. In scoping those objectives, the PIOB encourages the IESBA to focus on factors which contribute to unethical behavior, and the pursuit of targeted amendments of the Code to achieve behavioral change, rather than “compliance” steps. It appears to be in the longer-term public interest to build on the fundamental ethical principles of the Code.

3. COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS

Background

The revised definition of “Public Interest Entity” (completed in 2022) does not explicitly include Collective Investment Vehicles (CIVs) and Pension Funds (PFs), but the Code contains a strong encouragement for local bodies to explicitly consider adding CIVs and PFs as categories of PIEs in their own jurisdictions. The PIOB supported this approach as the PIE definition was revised in 2022, regarding this as appropriate at that point in time. Equally, the PIOB strongly encouraged the IESBA, at the time, to undertake further research activities in respect of CIVs and PFs, specifically with respect to their interaction with related entities, and relationships with and between trustees, managers and advisors.

Status

In line with the approved Strategy and Work Plan for 2024-2027, the IESBA had first discussions of the CIVs and PFs project at the March, June and September 2024 Board meetings, presenting initial findings of its research on this topic to gain a deeper understanding. The topic was not on the agenda of the December 2024 IESBA meeting; however, it is expected to continue during 2025. The preliminary conclusions are that unrelated third parties that undertake significant management responsibilities on behalf of CIVs and PFs are currently not captured by the Code’s definitions of “audit client” and “related entity” and therefore there is a risk that the auditor would not apply the conceptual framework in a consistent manner. The IESBA’s intended way forward is to solicit further in-depth views about the mentioned

gap in the Code, through a consultation paper. This could inform whether there is a need to extend the Code to address this gap.

The Public Interest Issue considerations below reflect the fact that the project is still in its initial fact-finding phase.

3.1. Incorporation of Collective Investment Vehicles and Pension Funds into the Code

The PIOB supports the IESBA's activities to identify to what extent there is currently a public interest "gap" in coverage of the Code - i.e. risks arising from the absence of the specific independence provisions addressing audits of CIVs and PFs. The PIOB acknowledges that it is now the intention of IESBA to consider potential enhancements to independence provisions in the Code rather than reconsidering inclusion of CIVs and PFs explicitly in the PIE definition.

The PIOB supports the proposed way forward by the IESBA, through a consultation paper. It will be important to ensure that risks to the public interest are clearly articulated so that any eventual proposed revisions to the Code are tailored appropriately, also with scalability in mind, in order that they meet the public interest without unintended consequences.

4. POTENTIAL EXPANSION OF THE SCOPE OF THE CODE OF ETHICS

Consideration of the potential expansion of the impact of the Code, including possibly expanding the scope and application of the Code, is part of the IESBA's 2024-2027 Strategy and Work Plan, which the PIOB concluded in April 2024 has been developed in a manner consistent with agreed due process and is responsive to the public interest. The PIOB has already acknowledged the intention of the IESBA to expand the applicability of Part 4B to other practitioners who are not professional accountants (see section 1.2 for details).

As the IESBA considers further expanding the applicability of the Code to individuals other than professional accountants, the PIOB underlines the importance of clear articulation of the anticipated benefits as well as any specific risks from the public interest perspective. Robust engagement would be imperative with investors, users, regulators and stakeholders both within the accountancy profession as well as among other professionals who would be the subject of any such extension of application of the Code. Equally, a wider impact analysis would be required to identify any potential unintended consequences regarding the efficacy of the Code as a whole where professional accountants are concerned. By way of example, this analysis would cover



potential risks arising from the use of more universal language in any extension to enable other professionals to understand and apply the Code.

In summary, taking into account all the relevant perspectives, a potential extension of the application of the Code will require time and resources and therefore impact on other areas of IESBA's work. Therefore, careful evidence-based evaluation of priorities will be needed, considering the significance of risks to public interest issues to be addressed.

IESBA's mandate to serve the public interest lies in setting ethics standards, including independence, as a cornerstone to ethical behavior. By definition, this mandate is distinct from, while complementary to, the remit of regulators. Preserving this complementarity while guarding against any overlap will help ensure that the Code continues to be responsive to the public interest and assist regulators in achieving efficient regulation.