



## PIOB's Public Interest Issues - IESBA projects

(document updated as of June 2025)

The PIOB's Public Interest Issues presented in this document are based on the status of the IESBA's projects after its March 2025 meeting and the PIOB meeting in April 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
IESSA	International Ethics Standards for Sustainability Assurance
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 by the beginning of 2025, 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 governance<sup>1</sup>.

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.

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<sup>1</sup> *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.*

## **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” or IESSA in this section), as approved at the December 2024 IESBA meeting. The Public Interest Issues below reflect the key matters noted in the “Background” section above and highlight those areas that require further refinement in the context of necessary evolution of the 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 the IESBA standards or in relation to the deferral of the effective date of the independence clauses for value chain components.

The PIOB encouraged the IESBA to create an effective monitoring and rapid response mechanism(s) to identify implementation challenges and to respond to them appropriately. In this context, the PIOB welcomes the establishment by the IESBA of the “IESSA Implementation Monitoring Advisory Group” (IIMAG) to provide insights, feedback or advice on identified areas relating to the implementation of the IESSA. Engaging with all relevant stakeholders, as an integral part of the monitoring and rapid response mechanism(s), will help ensure successful adoption and implementation of the IESSA through wide collaboration within the sustainability ecosystem, which is undergoing constant evolution in various jurisdictions.

The PIOB also emphasized the need for coordination with the IAASB and welcomes the appointments of an IAASB observer on the IIMAG and an IESBA observer on the corresponding working groups of the IAASB as the first step in this regard.

### **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 must 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 must 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 the 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 5 of this document.

### **1.3. 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 consider whether 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**

The project of Firm Culture and Governance was 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 ethical behavior and compliance with the Code. The PIOB has expressed strong support for this project.

### **Status**

The IESBA discussed the work on Firm Culture and Governance during all its meetings in 2024, leading to the approval of the project proposal in December 2024. The IESBA continued gathering input for the project during the first quarter of 2025, including feedback through a series of global roundtables with a wide range of stakeholders. An exposure draft is expected to be issued 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.

## **2.1. Scope of the project**

The PIOB welcomes the IESBA's approach in the Firm Culture and Governance project proposal to address risks impacting the public interest arising from the organizational culture and governance of firms in which individuals work. It is important that there is precise scoping of revisions to be proposed to the Code and that these are clearly articulated so that all relevant stakeholders have adequate understanding and can thereby provide input.

The PIOB supports the intention of the IESBA to consider risks which arise within legal structures used across firms, as well as from private equity investments (see also Section 4), with attention to their interplay with incentives for unethical behavior and corporate governance arrangements. Scalability of the future framework based on consistent principles to cover firms of different sizes, and with a clear rationale if non-application is envisaged in circumstances of certain firms, will require careful attention. Compatibility with local legislation and ensuring that public benefit is achieved in a neutral way with respect to market structure are among key matters to be considered for any potential amendments to the Code.

In this context, 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 approach to consider audit as well as all other service lines within the firm 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 market-facing multi-service entities, taking 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.

## **2.2. Achievement of behavioral changes as the ultimate goal of the project**

The PIOB welcomes that the project proposal has defined the objective of the project as to develop a culture and governance framework that promotes, supports and reinforces a high standard of ethical behavior. The PIOB also welcomes IESBA's intention for the project to aim at instilling behavioral changes through the proposed framework, in the specific areas highlighted by the project proposal, such as leadership of firms, firm-wide level accountability, performance management, speak-

up culture, education and training, and transparency. In referring to behavioral change, the PIOB emphasizes the importance of uniformity across all the service lines of firms, which require consistent interpretation and level of understanding of the Code regardless of the professional background of the individuals.

The PIOB encourages the IESBA to pursue development of a framework inspired by an understanding of factors which contribute to unethical individual behavior and culture through building on fundamental ethical principles to achieve behavioral change, rather than “compliance” steps. Equally, aspects relating to governance should stipulate substance rather than form, in order to complement the principles for individual behaviors and to also provide appropriate transparency for the users of services and public confidence more generally.

### **2.3. Interoperability with ISQM 1**

The PIOB emphasizes, as a matter of priority in the Firm Culture and Governance project, the benefits of an enhancement in ongoing coordination with the IAASB (see also Section 8). In this context, it is important to address the interoperability of any proposed framework with the IAASB’s International Standard on Quality Management ISQM1 through careful consideration of any links and potential overlaps between the two standards. Ethical behavior and independence are crucial principles that underpin the audit quality, and they are already recognized by ISQM1.

## **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 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 discussions of the CIVs and PFs project during board meetings in 2024, presenting findings of its research to gain a deeper understanding of this topic. 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 auditors would not apply the conceptual framework in a consistent manner. A Consultation Paper was approved at the IESBA meeting in March 2025, to solicit further views about the mentioned gap in the Code and, based on feedback received, the project team will develop a report with recommendations by December 2025.

### **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 has acknowledged the current intention of the 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, to carefully consider the practical aspects of a “perceived gap” as described in the Consultation Paper. Before proposing any amendments to the Code, it is important to understand how auditors currently apply the conceptual framework to assess their independence when dealing with CIVs and PFs. This could provide insight as to whether there are inconsistencies in the application of the Conceptual Framework in the Code and whether there is a need for further clarity, and potentially requirements in the Code in respect of certain relationships.

The PIOB encourages the IESBA to investigate potential similarities in this respect between the CIVs and PFs on the one hand, and private equity investments (see Section 4) on the other, to ensure their consistent treatment in the Code.

In summary, 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. PRIVATE EQUITY INVESTMENTS**

### **Background**

Private equity investments (PEI) in audit firms have been increasing in recent years, particularly as firms seek capital to grow, invest in technology, or expand service offerings. As this trend is impacting the traditional structure of many accounting firms, the topic of PEI has become relevant to several on-going projects and initiatives of the IESBA.



## **Status**

The IESBA's on-going projects where the PEI is relevant are most notably the Firm Culture and Governance (see Section 2), and CIVs, Pension Funds and other Investment Company Complexes (see Section 3). In addition, the IESBA has recently drafted a Staff Alert regarding PEI in audit firms, which aims to provide guidance on how to apply the Code, particularly its conceptual framework, to different PEI structures. The Staff Alert is expected to be issued in the second quarter of 2025.

### **4.1. Coordination between various projects**

The PIOB encourages the IESBA to clearly articulate, beyond the Staff Alert, whether it intends to address the ethics and independence considerations of the PEIs and how the different projects, as referred to above, interrelate. Another consideration would be to also coordinate with the IAASB regarding risk assessment aspects of the PEI in the context of its quality management standard ISQM 1. It is important that the respective teams work together to ensure consistency and coherence in their approaches.

## **OTHER PUBLIC INTEREST ISSUES**

### **Background**

During its oversight activities, the PIOB has identified several public interest issues, which are of broader nature relevant to IESBA workstreams. These issues are described in Sections 5-8 below.

### **5. 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.

The 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.

## **6. Impact of technology on ethics and independence**

Digitalization is profoundly impacting the role of auditors, transforming the conduct of their work and the skills required to perform their role. In this context, new risks for auditors with respect to ethics and independence have appeared.

It is welcome that the IESBA has recently issued revisions to the Code and resource materials for professional accountants, including Technology-related Revisions to the Code (effective from 15 December 2024) or Practical Guidance for auditors on how to apply the Code's requirements with respect to independence (dated July 2023). Remaining attentive to feedback on the usefulness of these materials and market developments overall will be important going forward. Equally, the PIOB encourages the IESBA to liaise closely with the IAASB with respect to its important technology-related project, with a view to anticipating any significant impacts on ethics and independence.

For both the IESBA and the IAASB, it is also important that the Boards benefit to the fullest extent possible from their existing technology expert groups, to ensure an appropriate understanding of the strategic risks related to the theme of technology.

## **7. Classification of assurance services and their impact on independence**

The Code prescribes that auditors of financial statements consider potential threats to their independence in cases when a large proportion of fees charged to their clients is generated by providing services other than audit (paragraph 410.11 A1). Under the

current approach, the non-audit services which trigger the application of these provisions, include all assurance services with the exception of reviews of financial statements (paragraph 410.3 A3) and sustainability assurance within the scope of the new Part 5 of the Code (paragraph 410.11 A2a). Consequently, a wide range of assurance services are considered as threats to auditors' independence.

Recognizing the importance of the principle-based nature of the Code and its coherence, the PIOB is concerned about the public interest implications of such an inconsistency in the treatment of assurance services and the resulting stringent independence requirements. From the user and broader external perspective, the inconsistent treatment of different types of assurance creates unnecessary complexity which is not conducive to the credibility of the auditor and the assurance work performed. On these grounds, the PIOB encourages the IESBA to reflect on the public interest benefit of overall coherence in the approach with respect to independence of the financial statement auditor in the Code.

## **8. Interoperability of ethics and audit: IESBA and IAASB coordination**

The PIOB notes that ethics and audit are two sides of the same coin, both from practitioners' and users' perspectives, as standards need to be interoperable to properly serve the public interest.

The PIOB acknowledges that the IESBA and IAASB coordinate their efforts at different stages of the development cycle of standards to determine potential implications on their respective projects, in alignment with the Public Interest Framework. In some instances, however, due to the complexity and nature of the topic and the challenge of achieving coherence in the standards, projects would require further joint efforts e.g. through joint board sessions, joint project teams, and potentially also by recasting some projects as joint projects.

The PIOB therefore encourages the IESBA and IAASB to consider whether to deepen the cooperation and coordination in the following projects:

- Implementation of Sustainability standards (see Section 1.1 and IAASB Public Interest Issues),
- Technology (see Section 6 and IAASB Public Interest Issues),
- Firm Culture and Governance and ISQM1 (see Section 2.3),
- Definition of Public Interest Entity (see IAASB Public Interest Issues).