

## Exposure Draft on International Ethics Standards for Sustainability Assurance (including International Independence Standards)

The IESBA welcomes comments on all matters addressed in the Exposure Draft (ED), but especially the matters identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

### Request for Specific Comments

The IESBA welcomes comments on the following specific matters. Where a respondent disagrees with a proposal, it will be helpful for the respondent to explain why and to provide suggestions for other ways to address the particular matter.

#### *Sustainability Assurance*

##### **Main Objectives of the IESSA**

1. Do you agree that the proposals in Chapter 1 of the ED are:

- (a) Equivalent to the ethics and independence standards for audit engagements in the extant Code? [See paragraphs 19 and 20 of the Explanatory Memorandum]

In certain sections, the Exposure Draft on International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA or ED) extends to setting out principles and guidance which involve the entity's value chain. Given that the nature of audit engagements is different, the scope of the IESSA is wider and therefore introduces principles and guidance that are more onerous and far-reaching making the IESSA by its very nature not equivalent to independence standards for audit engagements.

The Institute considers that it is crucial that the application of the IESSA principles and guidance apply to all practitioners equally whether such practitioners are Professional Accountants (PAs) or not. If non-PAs will be practising within the IESSA framework, and especially if such non-PAs will claim that their work is provided in terms of such framework, then the principles and guidance set out in the IESSA must apply to PAs and non-PAs in the same manner (i.e. it must be profession-agnostic). Certain principles and guidance set out in the IESSA are only encouraged when it comes to non-PAs and therefore the proposal in the ED is not always profession-agnostic and framework-neutral.

In addition, in our opinion, it is still too early to understand all implications of extending independence requirements to the entire value chain and to determine whether all practical considerations have been taken into account. We consider that a study is necessary in order to delineate the parameters of the scope so as to ensure that a balance is reached between the extent

of restrictions and the practical implications. In fact, this could be a specific project that IESBA could consider undertaking.

**(b) Profession-agnostic and framework-neutral? [See paragraphs 21 and 22 of the Explanatory Memorandum]**

As already explained above, the proposals in Chapter 1 of the ED are not always profession-agnostic and framework neutral in that non-PAs are only encouraged (as opposed to being bound) to apply certain principles and guidance set out in IESSA.

In addition, it is crucial for IESBA to ensure that regulatory bodies support and adopt the objectives of this Code to ensure that the public interest will be served.

The Institute also believes that there is the need for further clarity to strengthen the requirement for all sustainability assurance practitioners to not only comply with ethical requirements that are applicable for PAs, but also apply a system of quality management that is at least as rigorous as the IAASB's suite of quality management standards.

**2. Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics? [See paragraph 23 of the Explanatory Memorandum]**

As already stated above, in order for the proposals in Chapter 1 of the ED to be responsive to the public interest, the application of the IESSA principles and guidance must apply to all practitioners equally, irrespective of whether they are PAs or non-PAs.

In addition, the proposals need to be aligned with global reporting frameworks. Further clarity should be aimed at supporting scalability and comprehensiveness of the proposals by limiting possible exceptions from the principles and by demonstrating how a requirement applies to all entities regardless of, for example, the type of entity, industry or sector, and whether their nature and circumstances are less complex or more complex.

It was also noted that the term "interest" is being used as opposed to "financial interest". A consistent approach must be adopted irrespective of a practitioner's professional background.

**Definition of Sustainability Information**

**3. Do you support the definition of "sustainability information" in Chapter 2 of the ED? [See paragraphs 24 to 26 of the Explanatory Memorandum]**

Overall, as an Institute we agree with the definition of "sustainability information" in Chapter 2 of the ED. However, we recommend that practical examples are included as these would further aid the understanding of such definitions.

**Scope of Proposed IESSA in Part 5**

4. The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5? [See paragraphs 30 to 36 of the Explanatory Memorandum]

Agree. However, the application of the IESSA principles and guidance must apply to all practitioners equally, irrespective of whether such practitioners are PAs or non-PAs. If non-PAs will be practising within the IESSA framework, and especially if such non-PAs will claim that their work is provided in terms of such framework, then all the principles and guidance set out in the IESSA must apply to PAs and non-PAs in the same manner (i.e. it must be profession-agnostic).

5. The IESBA is proposing that the *International Independence Standards* in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a? [See paragraphs 38 to 43 of the Explanatory Memorandum]

We agree with the proposed criteria set out in 5400.3a.

In addition, as already stated above the application of the IESSA principles and guidance must apply to all practitioners equally whether such practitioners are PAs or not. If non-PAs will be practising within the IESSA framework, and especially if such non-PAs will claim that their work is provided in terms of such framework, then the principles and guidance set out in the IESSA must apply to PAs and non-PAs in the same manner (i.e. it must be profession-agnostic).

**Structure of Part 5**

6. Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of the Explanatory Memorandum]

We have no objection to the inclusion of this Section.

**NOCLAR**

7. Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other? [See paragraphs 56 to 67 of the Explanatory Memorandum]

MIA notes that this is an important requirement, particularly in cases where the sustainability assurance practitioner is not the engagement leader on the statutory audit. During an audit of the

financial statements, the engagement team is only responsible to read the other information contained in the Annual Report and consider whether it is materially inconsistent with the financial statements or with their knowledge obtained during the course of the audit. NOCLAR, in particular for listed entities (but also equally important for other entities falling within scope), may result not only in the possibility of delisting or revocation of license but may also have a significant impact in terms of market capitalisation which in turn may impact going concern.

8. Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED) *[See paragraph 68 of the Explanatory Memorandum]*

The Institute agrees with IESBA who are also proposing corresponding revisions to the extant Section 260 through the additional paragraphs included in Part 2 of the Code, applicable to Professional Accountants in Business, specifically through the addition of the requirements spelled out in R260.15 and 260.15 A1 which would require the professional accountant to determine whether to disclose NOCLAR also to the practitioner conducting a sustainability assurance engagement on the entity **and/or** the entity's external auditor. (We are noting "and/or" in bold as, in our opinion, in those cases where the sustainability assurance practitioner and the external auditor are different, disclosure should be permitted to both.)

Notwithstanding the above, the Code needs to take into consideration that accountants are not regulated in the same manner in each and every country. Hence, this necessitates considerations as regards to how level playing field is going to be ensured given this scenario.

### ***Determination of PIEs***

9. For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements? *[See paragraphs 80 to 85 of the Explanatory Memorandum]*

MIA aligns with the view that the same definition of PIE for audit purposes should be used when providing sustainability assurance engagements. Furthermore, the Institute is in agreement with 5400.13a insofar as there being no obligation on the sustainability assurance practitioner to treat the entity as PIE in instances where the audit engagement team determines to treat as PIE as a result of applying more onerous standards other than those of IESBA. MIA is also of the view that an additional sentence should be included to reflect the inverse situation in Part 4A.

### ***Group Sustainability Assurance Engagements***

10. The IESBA is proposing that the *International Independence Standards* in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements. *[See paragraphs 86 to 92 of the Explanatory Memorandum]*

- (a) Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?

MIA supports the IIS in Part 5 specifically addressing group sustainability assurance engagements. The Institute notes that although the independence provisions applicable to group sustainability assurance engagements are developed in a manner that is consistent with the independence standard for group audit engagements, one should consider that the independence standards for group audit engagements were developed with the mindset that there is already an auditing standard in place addressing Group Audits (i.e. ISA 600). Whilst the IESBA already acknowledges the need for guidance in relation to group sustainability assurance engagements, there is an urgent need for IESBA to jointly develop with IAASB application material to clarify the requirements for performing assurance over group or “consolidated” sustainability information, including clarification around aggregation risk and scoping decisions in a multi-location engagement to mitigate any threat to professional competence and due care. One should also consider the need to ensure that there is alignment between the requirements of the different standard setters.

- (b) If you support addressing group sustainability assurance engagements in the IIS in Part 5:

- (i) Do you support that the independence provisions applicable to group sustainability assurance engagements be at the same level, and achieve the same objectives, as those applicable to a group audit engagement (see Section 5405)?

Although the independence provisions applicable to group sustainability assurance engagements were structured in a manner to be as robust as those applicable to a group audit engagement, in the absence of a specific ISSA addressing group sustainability assurance engagements, it may prove to be difficult to achieve the same objectives on their own.

- (ii) Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement? *[See paragraph 88 of the Explanatory Memorandum]*

MIA agrees that the requirements may act as a bridge until a sustainability assurance standard that is equivalent to ISA 600 is developed. It is to be noted that, in the absence of a sustainability assurance standard, it is important for the IAASB to issue application guidance given that ISSA 5000 does not consider specific sustainability assurance procedures that a sustainability assurance team would need to consider, for example the role of the regulator in overseeing the component sustainability assurance firm.

- (iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, “group sustainability assurance engagement” and “component”)?

MIA agrees with the proposed defined terms in the context of group sustainability assurance engagements as the definitions are consistent with those included within the independence standards for audit engagements.

***Using the Work of Another Practitioner***

11. Section 5406 addresses the independence considerations applicable when the sustainability assurance practitioner plans to use the work of another practitioner who is not under the former's direction, supervision and review but who carries out assurance work at a sustainability assurance client. Do you agree with the proposed independence provisions set out in Section 5406? *[See paragraphs 93 to 101 of the Explanatory Memorandum]*

MIA agrees with the proposed independence provisions set out in Section 5406 and note that independence is a fundamental cornerstone for assurance and that using the work of an external expert might create threats to a sustainability assurance practitioner's compliance with the fundamental principles. Section 5406 includes detailed requirements for sustainability assurance practitioners to ensure they remain independent by applying the conceptual framework to identify, evaluate and address threats to independence when they arise in a range of situations including the provision of non-assurance services.

Whilst the Institute is supportive of the proposed independence provisions set out in Section 5406, we believe that further examples to better illustrate the concepts are necessary. This should enhance the Code to assist sustainability assurance practitioners in evaluating whether an external expert has the necessary competence, capabilities and objectivity when planning to use that expert's work for the intended purposes. If the sustainability assurance practitioner deems that the external expert is not competent, capable or objective, the Code should clearly prohibit the sustainability assurance practitioner from using the external expert's work.

***Assurance at, or With Respect to, a Value Chain Entity***

12. Do you support the proposed definition of "value chain" in the context of sustainability assurance engagements? *[See paragraphs 102 and 103 of the Explanatory Memorandum]*

Whilst the MIA understands the rationale behind this definition, the application of such definition in practice may pose certain challenges and situations that would make it extremely difficult to issue an opinion on sustainability reporting. More work is required to identify such issues and challenges to determine whether the definition is appropriate.

13. Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity? *[See paragraphs 104 to 110 of the Explanatory Memorandum]*

MIA supports the view that the provisions of Section 5407 are offering global ethical guidance on the independence considerations when sustainability assurance work is performed at, or with respect to, a value chain entity. The Institute believes that by clarifying who is responsible for

compliance with the independence requirements in particular circumstances, the understandability and usability of the code would be enhanced, thereby facilitating its adoption, effective implementation, consistent application and enforcement.

A specific definition of a value chain entity is needed to help the provisions of Section 5407 to provide considerably more guidance for making assumptions with respect to reporting boundaries to identify, evaluate and address threats of independence when a firm performs assurance work, or uses assurance work performed at, or with respect to, a value chain entity.

14. Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:

- (a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm's independence?

MIA agrees that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity, might create threats to the firm's independence. We understand and welcome the use of the proposed requirements. However, as an Institute we believe that there is a need for further clarity on the relationship between the firm, a network firm, all those who are providing sustainability-related information and all those who are providing sustainability-related assurance. Further consideration is needed to address the challenges that assurers are likely to face, for example, when encountering potential instances of greenwashing.

- (b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide? *[See paragraphs 111 to 114 of the Explanatory Memorandum]*

The Institute is supportive of the approach and guidance proposed in Section 5700 aimed at setting a global benchmark for how to evaluate the Competence, Capabilities, and Objectivity of external experts, and how to identify, evaluate and address the threats that might be created when using the work of an external expert. However, the MIA believes that there is a need for Section 5700 to reflect the importance of having engagement leaders who possess sufficient competence and capabilities in assurance skills and techniques to accept responsibility for the conclusions reached on the engagement.

MIA also believes that to achieve their objective, the proposals of Section 5700 would need the support of regulatory bodies around the globe to ensure that high-quality assurance, related ethics, independence, and quality management standards apply to all parties involved in providing assurance on sustainability-related information. This is crucial to ensure that the public interest will be served.

***Providing NAS to Sustainability Assurance Clients***

15. The *International Independence Standards* in Part 5 set out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client. Do you agree with the provisions in Section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG)? [See paragraphs 115 and 116 of the *Explanatory Memorandum*]

While, as already noted above, MIA is of the opinion that all the principles and guidance set out in the IESSA must apply to PAs and non-PAs in the same manner, the Institute agrees with the provisions in Section 5600 setting out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client.

16. Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of the *Explanatory Memorandum*]

- (a) Do you agree with the coverage of such services and the provisions in the Subsections?
- (b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

MIA agrees that these services need to be considered in line with the provisions of Part 5.

***Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client***

17. Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client’s financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)? [See paragraphs 123 to 131 of the *Explanatory Memorandum*]

Whilst agreeing that the two types of engagements may be considered as separate engagements, MIA does not agree that fees from sustainability assurance engagements should be considered as non-audit fees.

***Other Matters***

18. Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?

The Institute suggests that Chapter 1 includes more examples related to sustainability assurance.

19. Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

MIA finds that considerable judgement is required on matters that may be interpreted differently by PAs and non-PAs alike. The levels of judgement involved will make ‘fair presentation’ and the respective assurance challenging.

The Institute believes that the proposals in Chapters 1 to 3 provide a solid foundation. However, we would like to see globally accepted definitions of greenwashing. This would be of benefit in mitigating against the risk of an entity inadvertently placing too much emphasis on positive aspects of its sustainability performance or by making narrowly focused statements that do not take appropriate account of the holistic nature of its activities.

MIA suggests that the IESBA develops further implementation guidance to explain how a practitioner can perform an analysis to determine whether other professional independence requirements are at least as demanding, such as a detailed comparison of other professional requirements and the IESBA Code.

Moreover, as an Institute we believe that in the absence of a sustainability assurance standard for group sustainability assurance engagements, it is imperative for IESBA and IAASB to develop application guidance as the nature of the independence standards would limit the way that they are worded and thus would limit the guidance that practitioners may follow in performing group sustainability assurance engagements.

### *Sustainability Reporting*

#### ***Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest***

20. Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information? *[See paragraphs 133 to 135 of the Explanatory Memorandum]*

We support the view that the high ethical standards applicable to PAs must apply to all preparers of sustainability information (i.e. it must be profession-agnostic).

21. Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics? *[See paragraph 138 of the Explanatory Memorandum]*

In general, MIA agrees that the proposals in Chapter 4 of the ED are responsive to the public interest, when considering the Public Interest Framework’s qualitative characteristics. However, in order to promote a level playing field, the application of the IESSA principles and guidance must apply to all practitioners equally whether such practitioners are PAs or not. If non-PAs will be practising within the IESSA framework, and especially if such non-PAs will claim that their work is provided in terms of such framework, then the principles and guidance set out in the IESSA must apply to PAs and non-PAs in the same manner (i.e. it must be profession-agnostic).



***Proposed Revisions to the Extant Code***

22. Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including:

(a) Proposed revisions to Section 220? *[See paragraphs 139 to 141 of the Explanatory Memorandum]*

The MIA agrees that the proposed revisions to Parts 1 to 3 of the extant code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective.

However, as already noted above, in our opinion, it is still too early to understand all implications of extending independence requirements to the entire value chain and to determine whether all practical considerations have been taken into account. We consider that a study is necessary in order to delineate the parameters of the scope so as to ensure that a balance is reached between the extent of restrictions and the practical implications. In fact, this could be a specific project that IESBA could consider undertaking.

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? *[See paragraphs 143 to 153 of the Explanatory Memorandum]*

The Institute notes that while we agree with the proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information, we also refer to the importance of the study referred to above.

(c) Other proposed revisions? *[See paragraph 155 of the Explanatory Memorandum]*

The addition of such examples would give sufficient material to guide professional accountants with independence related issues in relation to sustainability assurance engagements.

23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

No other matters to raise given that the proposals are deemed to be consistent with the Code of Ethics.

*Effective Date*



24. Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?

The Institute agrees with the alignment of the effective date of IESBA final provisions to the effective date of ISSA 5000; and emphasise the urgent need for the latter to be finalised.