

# Sustainability/ESG Developments

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Working Group Member*

CAG Meeting

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## 1. To *RECEIVE* presentations from external presenters

- CFA Institute: Josina Kamerling, *Head of Regulatory Outreach EMEA*
- US Securities Exchange Commission Staff: Anita Chan, *Professional Accounting Fellow Office of the Chief Accountant*

## 2. To *RECEIVE* an update on the IESBA's workstream relating to sustainability/ESG reporting and assurance, and to *DISCUSS* matters arising



# Recap: What is ESG?



## Environmental

Conservation of the natural world

- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity



## Social

Consideration of people & relationships

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards



## Governance

Standards for running a company

- Board composition
- [Audit committee](#) structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes

*Stakeholders use different terms to describe non-financial reporting*



*There is a natural link between ethics and ESG*

Source: [www.cfainstitute.org/en/research/esg-investing](http://www.cfainstitute.org/en/research/esg-investing)



# Overview of Current Landscape



- Investors want more transparency about ESG, especially in relation to climate
  - Innovations in technology are making it easier to compile and publicly share non-financial/ ESG data
- Non-PAs have a significant role in preparing ESG-related disclosures (and assuring them), but do not always have the necessary expertise and experience
  - Lack of consistent framework to guide ESG-related work
    - Not required to comply with Code of Ethics and therefore are not bound to fundamental principles
  - Do not have a responsibility to prioritize the public interest
  - May not be as experienced/skilled as PAs in exercising judgments, professional skepticism (or having an inquiring mind)

# Landscape is Rapidly Changing

- Despite existing frameworks, there is lack of standardization across industries and jurisdictions; Significant momentum towards establishing a global system for sustainability-related disclosures and assurance
- Global regulators, policy makers and standard setters are fully engaged
  - Establishment of **International Sustainability Standards Board** (to be fully operational by June 2022)
  - ESG assurance is prominently featured in IAASB's [2022-2023 Strategy Work Plan](#)
  - IOSCO issued specific recommendations and outcomes of fact finding in 2021; hosted roundtable on audit and assurance of sustainability disclosures in February 2022; currently pursuing several workstreams
  - IFAC issued its [Vision for High-Quality Assurance of Sustainability Information](#) in December 2021
  - Institute of Internal Auditors issued White Paper, [Prioritizing ESG – Exploring Internal Audit's Role as a Critical Collaborator](#) in February 2022
- Also, there is a significant level of activity at jurisdictional/national level (especially in the EU and the US)

# Highlights of October 2021 NSS Discussion



## ***Key Learnings from NSS Discussion***

- Sustainability is a key focus area for NSS strategies and work plans
- There is a strong call for action to *fight against greenwashing*
- Support for ISSB launch, but desire to also have sustainability standard boards
- Need national-level guidance to help in the application of the current assurance framework (ISAE 3000) when providing assurance on ESG information



“Green washing usually refers to practices aimed **to mislead investors** or give them **false impression** about how well an investment is aligned with its sustainability goals” (IOSCO)

# Role for IESBA

- IESBA has an important role → **Be the global champion for ethics (including independence)**
  - IESBA should be proactive without overstepping roles and responsibilities of regulators, ISSB or IAASB
  - Emphasize the importance of ethics in ensuring confidence in the reliability of non-financial information
  - Showcase relevant aspects of the Code, and undertake fact finding to inform future standard setting
- IESBA to further understand the nature of ESG-related activities PAIBs and PAPPs perform to better identify/address most pressing ethics and independence related issues
  - Engage in further dialogue with IOSCO to better understand regulatory concerns



# Recap of IESBA September 2021 Discussions

- IESBA has been focused on identifying ethics and independence issues arising from reporting and providing assurance on ESG matters since June 2021
- In September 2021 IESBA noted an IFAC/ AICPA-CIMA report titled, the *State of Play on Sustainability Assurance* and had preliminary discussions about:
  - The role of professional accountants in ESG
  - The applicability of the Code to ESG reporting and assurance thereon
  - Ethics and independence issues identified in relation to reporting and assuring ESG information
- In March 2022, IESBA considered its EIOC's recommendations and determined a way forward

## Key Takeaways from September

1. IESBA should **consider and respond to ESG-related ethics (and independence) issues** raised by IOSCO and others (e.g., “greenwashing”; risk of over relying on work of others)
2. IESBA should participate in global debates and **highlight and champion existing ethics and independence provisions** that are already relevant to ESG reporting and assurance



# Establishment of a Sustainability Working Group

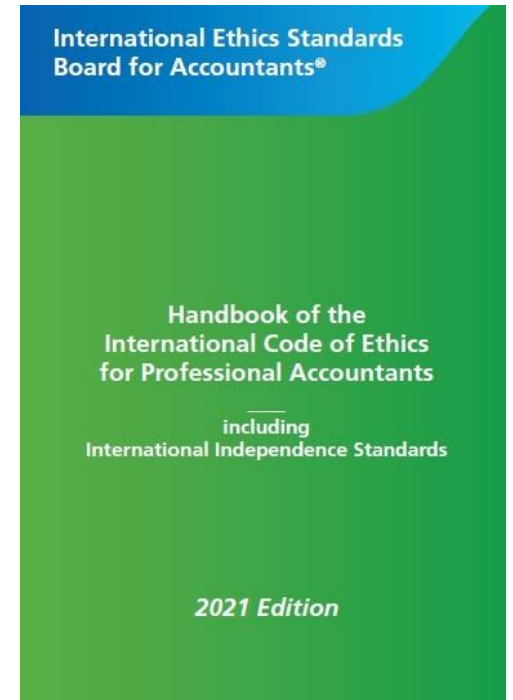
In March 2022,  
IESBA agreed to  
establish a  
**Working Group**

- Mandate of the newly formed Working Group include:
    - A. **Fact finding** to better understand ESG landscape and to inform future standard setting
      - IESBA's **Strategy Survey** will prominently feature questions about prioritizing ESG
    - B. Inform development of **Staff Guidance** to highlight the applicability of the Code to ESG
      - Demonstrate the obvious: reliable ESG information depends on high-quality, **global ethics standards**
    - C. Preliminary **review of Code through sustainability/ ESG lens** to assess and recommend the scope for a **future standard-setting project**
- Working Group to focus on sustainability matters broadly, including in relation to reporting and assurance***

# Other Matters Being Explored

## Expanding the scope of the Code?

- **Agenda Item C-1** notes that IESBA will seek global input about the criteria for applying the IESBA Code
  - Should the Code apply to non-PAs who perform ESG engagements? Or should it continue to apply to PAs only?
  - Should the Code apply to specific types of services (e.g., ESG-related assurance services)?
- IESBA notes that this is a significant undertaking; will have longer term implications not just for ESG
  - Will impact multiple workstreams and require extensive coordination and outreach efforts
  - Might involve a review of IESBA's mandate



***Responses to ESG-related questions in IESBA's Strategy Work Plan  
Survey for 2024-2027 to inform way forward***

# Timeline for Sustainability Work Stream



**Staff Guidance to  
highlight and explain  
applicability of the  
Code**

**ASAP**



**Sustainability / ESG  
Fact-finding and  
development of final  
report**

**Q2 2023**



**Standard Setting  
Project – **Review**  
**Code from**  
**Sustainability / ESG**  
**lens****

**After 2023**

# Staff Guidance and Awareness Raising



## Staff Guidance

- Important to highlight principles and topics in the existing Code are relevant to address ESG-related issues
  - Respond timely to “greenwashing”: protect investors and other stakeholders against fraudulent or misleading ESG information
  - Emphasize the need for appropriate skills and expertise to prepare and assure ESG information (e.g., measuring carbon footprints)
- Issuing Staff Guidance alone will not be enough; there is a need for a global PR/ communication plan to promote awareness of the Code
  - Targeted outreach, especially with investors, TCWG, regulators and other standards setters
  - Partner with IAASB, IPSASB (and IFAC) to disseminate ESG-related ethics and independence guidance
- IESBA members, especially Sustainability Working Group members are being asked to be visible and proactive in advocating for the relevance of ethics



# Proposed Topics for Staff Guidance

*Staff guidance to include ESG-specific examples that will resonate with readers*

The Appendix to this document highlights provisions in the Code that are relevant to address specific ESG-related issues

1. Fighting Green-washing, including
  - Compliance with fundamental principles, exercising professional skepticism and having an inquiring mind in the ESG space
  - Preparation and Presentation of ESG Information
  - Use of Discretion in Using Professional Judgment
2. Address Risks of Over Relying on Work of Others, especially Experts
  - Emphasize the importance of having sufficient ESG-related skills and expertise
3. Respond to Concerns about Independence and Conflict of Interest in ESG-related assurance engagements, including
  - Providing a specific ESG-related NAS to an audit client
  - Providing assurance on ESG disclosures to an audit Client

# Fact Finding



**Fact-  
finding**

- Important to understand the nature of ESG-related service and the landscape in the ESG market e.g.,
  - What are the most pressing ethics and independence related questions being asked by firms, regulators and others?
  - What ESG-related services are PAs providing?
  - What professional activities are non-PAs performing in relation to ESG?
- Multi-stakeholder engagement needed to identify issues and to develop a coordinated way forward
  - Critical to continue dialogue with regulators (e.g., IOSCO)
  - Further understand investors' (and other users') ESG needs
  - Important that IESBA liaise with standards setters (ISSB, IAASB, NSS) and global policy makers at the leadership and staff levels; as well as with ESG service providers (firms, preparers, ESG experts/ non-PAs)
- Insights from fact-finding will help delineate the scope, and direct the focus of future ESG project

# Review Code through Sustainability/ ESG Lens



## Review Code from ESG Lens

- IESBA believes that a careful review of the Code from an ESG perspective will help identify potential areas for enhancement
  - Although Code applies to non-financial information (e.g., ESG), such provisions are not specific; Code was primarily developed for PAs and firms who undertake professional activities and services relating to financial information
  - Some proposals in the IESBA's [Technology Exposure Draft](#) might help address certain ESG-related issues (e.g., risk of over relying on technology and work of others; explicit statement indicates that Part 4B of the Code applies to ESG-related engagements)
- The IESBA Code should expressly deal with ESG so that it continues to be viewed as relevant and “fit for purpose,” but there is a need for balance
  - Determine the right level of ESG-specific material for inclusion in the Code (specificity should not undermine the Code’s principles-based nature and building blocks architecture)
  - Consider whether Code should have a separate non-financial/ESG section (will be affected by ongoing debates about the need for integrated financial and non-financial thinking and reporting)

*Responses to IESBA’s 2024-2027 SWP survey questions will help determine ESG prioritization*



CAG Representatives are  
asked to note and react to the  
presentations







*[www.ethicsboard.org](http://www.ethicsboard.org)*



[@Ethics Board](https://twitter.com/Ethics_Board)



[@IESBA](https://www.linkedin.com/company/iesba)

 **YouTube** [@IESBA](https://www.youtube.com/iesba)



## Appendix

### - Code's Provisions that are relevant to Sustainability/ ESG-related Matters –



# Relevant Topics in Code that Apply to ESG

**ISAE 3000** is premised on the basis that **assurance engagement team is subject to the IESBA Ethics Code** (or other professional requirements, law or regulation, that are at least as demanding)

## Fundamental Ethics Principles for professional accountants:

Act with **INTEGRITY** – even when facing pressure to do otherwise

Uphold **OBJECTIVITY** – without being compromised by bias, conflict of interest or undue influence of others or technology

Maintain **PROFESSIONAL COMPETENCE** required to exercise sound judgments and **DUE CARE**

Respect **CONFIDENTIALITY** of information – but consider circumstances in the light of the public interest

Demonstrate **PROFESSIONAL BEHAVIOR** – the profession's responsibility is to act in the public interest in all professional activities and business relationships.

**Part 4B of the Ethics Code** provide principles-based **independence standards for ESG assurance engagements**. The Code is also relevant to the **preparation and presentation of ESG disclosures**:

Pressure

Use of discretion in preparing or presenting information

Addressing information that is or might be misleading

Acting with sufficient expertise

Conflicts of Interest

Non-compliance with laws and regulations

Inquiring mind/ Professional skepticism

Using the Work of an Expert

# Fighting Greenwashing

Section  
110

- Concerns about practices aim to mislead investors or give them false impression about how well an investment is aligned with its sustainability goals

## ***Compliance with the Code's FP of Integrity***

- Require PAs to be straightforward and honest in all professional and business relationships
- Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise, or when doing so might create adverse personal or organizational consequences
- Prohibit PAs from being associated with reports, returns, communications or other information where the PA believes that the information:
  - Contains a materially false or misleading statement;
  - Contains statements or information provided recklessly; or
  - Omits or obscures required information where such omission or obscurity would be misleading.



# Fighting Greenwashing (2)

Sections  
120, 220  
and 270

- Requirement for exercise **professional skepticism and having an inquiry mind**
- Requirements regarding **preparation and presentation of information**:
  - When preparing or presenting information, PAs must:
    - Prepare and present the information in accordance with the relevant reporting framework, where applicable
    - Prepare or present the information in a manner that is not intended to mislead or influence the outcome
    - Represent the facts accurately and completely in all material aspect
    - Describe clearly the true nature of business transactions
  - If PA knows or has reason to believe that the information is misleading, the PA must take appropriate actions to seek to resolve the matter
    - If the misleading information involve non-compliance with laws and regulation, the Code's NOCLAR provisions will apply
- Prohibition on **allowing pressure from others** to result in a breach of FPs; Placing pressure on others that would lead them to breach FPs is also prohibited

# Using Discretion in Making Professional Judgments

Section  
220

- Lack of standards to prepare and present ESG information might require PAs to use discretion regarding several matters, e.g., materiality and classification of ESG factors
- Prohibition on exercising discretion in preparing and presenting information with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately
- When performing professional activities, especially those that do not require compliance with a relevant reporting framework, PAs must exercise professional judgment to identify and consider:
  - The purpose for which the information is to be used;
  - The context within which it is given; and
  - The audience to whom it is addressed

# Relying on the Work of Others, including Experts

Sections  
220 and  
320

- Concerns about over reliance on ESG data/experts or technology products
  - Questions about whether existing guidance on “use of experts” is sufficient
  - IESBA’s Technology Exposure Draft provides technology-specific guidance
- Before relying on the work of other individuals in preparing and presenting information, PAs must consider specific factors to determine what steps to take to fulfill such responsibilities
- When a PA intends to use the work of an expert, the PA shall determine whether the use is warranted
- IESBA’s Technology ED is proposing enhancements to the examples of factors that a PA needs to consider in **determining whether reliance on work of others or technology is reasonable**

# Having Sufficient ESG Skills and Expertise

Sections  
110 and  
230

- Concerns about whether PA possesses the relevant skills and expertise to report, or provide assurance on ESG information (e.g., measuring carbon footprints)
  - Especially when there is connectivity between ESG information and the financial statements
- **Compliance with the Code's FP of professional competence and due** requires PAs to:
  - Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation
  - Stay up to date on relevant technical, professional, business and [technology-related](#) developments
  - Act with sufficient expertise when performing professional activities
- Inform clients or other users of PA's services or activities of the limitations inherent in the services or activities
- PAs **shall not intentionally mislead** employing organization as to the level of expertise or experience possessed



# Objectivity and Conflicts of Interest

Sections  
110, 210,  
310

- No generally accepted and applicable framework for preparing and reporting on ESG information
  - Concerns about undue reliance on ESG experts or technology, and potential conflicts of interest
- **Compliance with the Code's FP of objectivity** require PAs to exercise professional or business judgment without being compromised by:
  - Bias; Conflict of interest; or Undue influence of, or undue reliance on, individuals, organizations, [technology](#) or other factors
- Conscious and unconscious bias affect the exercise of professional judgement when applying the conceptual framework; Code provides examples of such bias
- Code prohibit PAs from:
  1. Undertaking a professional activity if a circumstance or relationship unduly influences the PA's professional judgment
  2. Allowing a conflict of interest to compromise professional or business judgment
- RITP test is available to PAs in evaluating and addressing conflicts of interest

# Independence Considerations

Parts 4A  
and 4B

- Questions about whether and which independence provisions apply
  - No explicit mention of ESG in extant Code; but relevant independence provisions apply
    - Revised NAS provisions will become effective in December 2022
  - Part 4A apply when a firm provides an ESG-related service to their audit client
    - Before accepting a NAS engagement (including ESG-related services), firm must identify, evaluate and address the threats to independence
    - In the case of PIE audit clients, TCWG must pre-approve NAS engagement
    - Prohibition on assuming management responsibility for audit client and on providing NAS that might create a self-review threat to PIE audit clients
    - No fee cap; but firms must evaluate and address threats created when large proportion of fees to an audit client generated from provision of non-audit services
  - Revised Part 4B and IAASB's ISAE 3000 apply to ESG assurance engagements

# ESG Assurance Engagements and Audit Clients

Sections  
600 and  
410

- Can a firm also provide an ESG assurance engagement for its audit client?
- No specific provisions on this topic in the Code
- Separate independence standards apply for the **audit engagement** and for the **ESG-related assurance engagement** (i.e., Parts 4A and 4B)
  - Firm must comply with applicable independence standards
- Important that firm consider and apply the Code's NAS & Fee-related provisions
  - Must continue to maintain independence of the audit client
  - Must not assume a management responsibility
  - Watch out for self-review and self-interest threats
- Effective Dec 2022, the following will also apply:
  - Prohibition on providing NAS that might create a self-review threat (for PIEs)
  - Requirement to evaluate and address the threats created by large proportion of fees received for services other than audit (including assurance services) from an audit client (for all)
  - Specific fee disclosures, including to the public (for PIEs)

# Providing NAS to an Assurance Client

Sections  
900 and  
950

- Can a firm provide other types of services (e.g., IT-related services) to its ESG assurance client?
- Expectations about a firm's independence is heightened when the results of an assurance engagement will be made public; or provided to an oversight authority/ regulator
- No explicit mention of ESG in extant Code; however, provisions in Sections 900 and 950 apply
  - NAS-related amendments to Part 4B will become effective in December 2022
- No fee-related requirements; no requirements to communicate with TCWG
- IESBA's Technology ED:
  - Provides an explicit ESG mention in the Code; and
  - Highlights examples of IT systems services that might create a self-review threat in relation to the subject matter information (i.e., *Designing, developing, implementing, operating, maintaining, monitoring, updating IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls*)