

IESBA

International  
Ethics Standards  
Board for Accountants®

# Sustainability

Mark Babington, IESBA Member | Working Group Chair  
IESBA Consultative Advisory Group Meeting  
September 23, 2022

# Agenda for Today

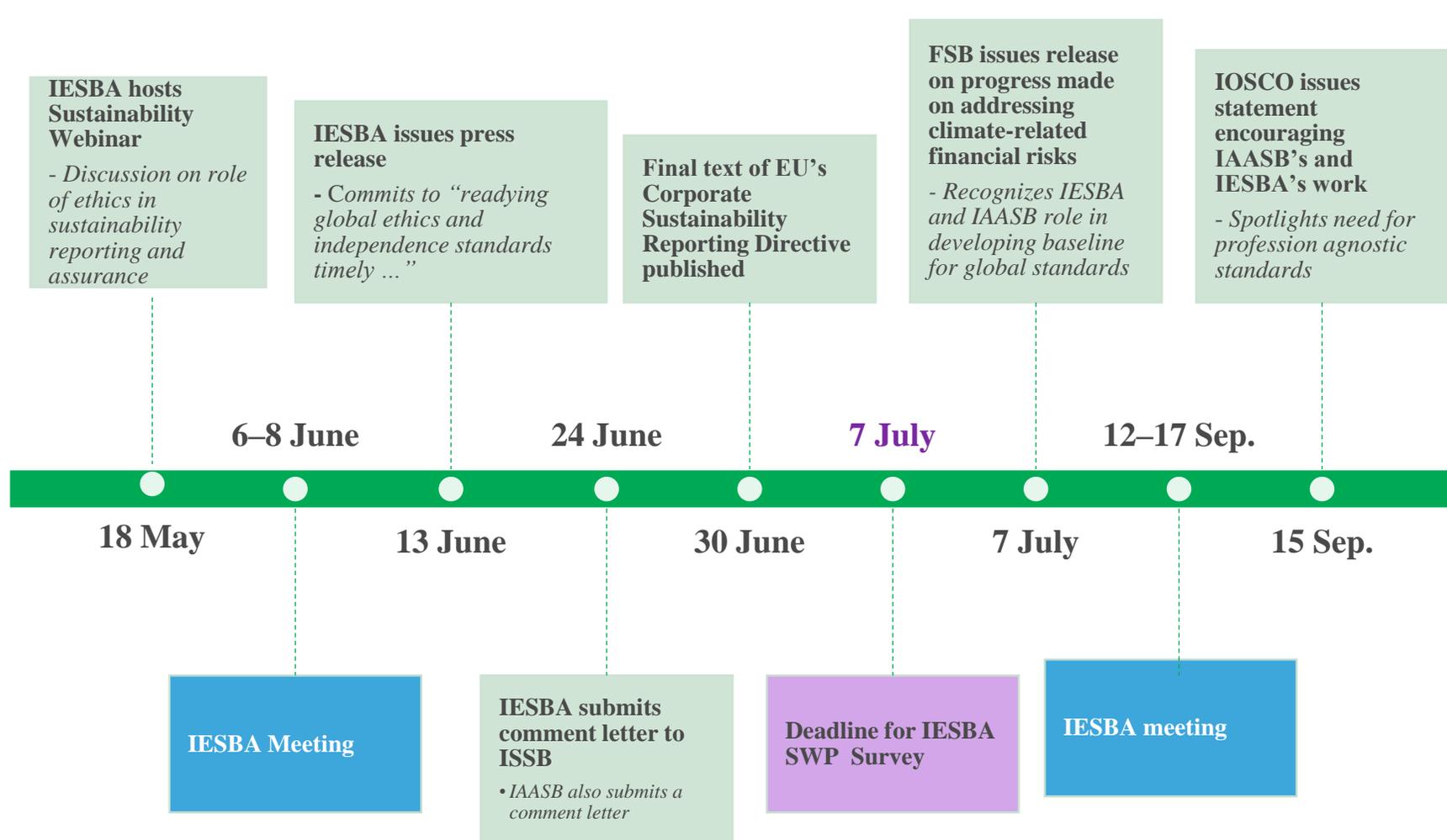
- To receive an update on the Sustainability Working Group's recent activities and next steps
  - Responses to sustainability-related questions in Strategy Survey
  - IESBA's current thinking re standard-setting work streams relating to relation to sustainability reporting and assurance
  - Note and provide input on Greenwashing Staff publication

# Working Group Objectives

As agreed by  
IESBA in  
June 2022

- Develop a strategic vision to guide IESBA's standard-setting actions in relation to sustainability reporting and assurance
  - IESBA to approve project plan in December 2022
- Undertake awareness raising activities to highlight IESBA's role and the applicability of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* to sustainability reporting and assurance
- Conduct fact finding, including extensive stakeholder outreach to inform standard setting projects and other workstreams
- Coordinate activities closely with others, in particular IAASB and ISSB

# Activities Since March 2022 CAG Meeting



**Key Dates**  
*Deadline for Comment on Sustainability Proposals*

- US SEC – Jun 17
- ISSB – Jul 29
- EFRAG – Aug 8

**Meetings held/ scheduled with key stakeholders including:**

- IAASB
- IOSCO
- ISSB
- Forum of Firms
- GRI

# IESBA Strategy Survey 2022



## 4 proposed Strategic Focus Areas

**Sustainability  
Reporting &  
Assurance**

Ethical  
behavior of  
PAIBs

Auditor  
Independence

Adoption &  
Implementation

**Survey  
Questions 1-3**

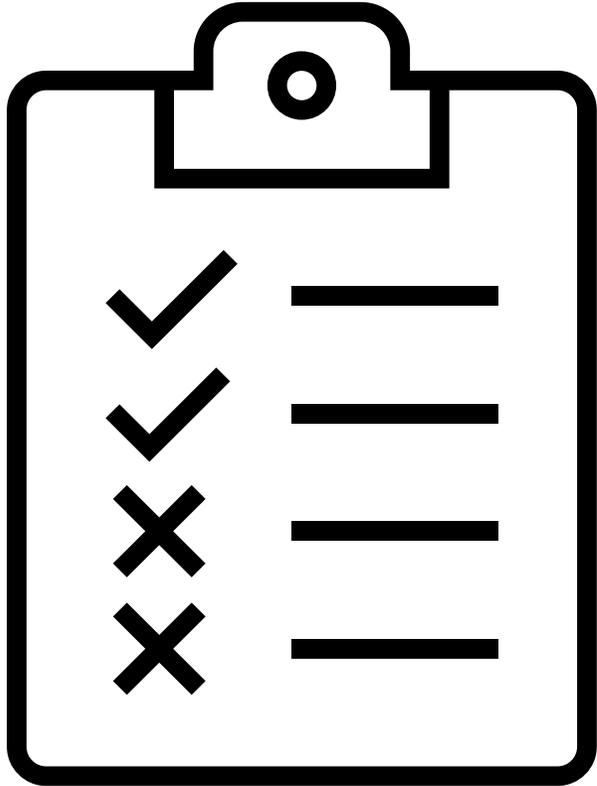
# Proposed Strategic Focus: Sustainability Reporting and Assurance

- **Strong support for the strategic focus on standard-setting work relating to sustainability reporting and assurance**
  - Call to act urgently and not wait for the next strategy period (incl. IOSCO)
  - Highlighted importance of collaboration with IAASB, ISSB and other key stakeholders
- Some additional comments, including:
  - Some have cautioned about length of Code, and not be subject specific
  - Focus should not be just on climate change
  - Same independence rules should apply to sustainability assurance
  - Revisions to the Code should not add significantly to costs and should not reduce competition
  - If new requirements are put in place and become effective in a short timeframe, risk that only large firms will have the capacity to comply with them
  - Separate assurance providers (financial and non-financial) reaches different opinion about a related subject-matter – conflict may impact on public confidence in the statements produced
  - IESBA should not underestimate the resource needed
  - NAM suggestions (e.g., Part 4B)
- Some suggested solutions, including:
  - Consideration of Part 4B remains fit for purpose
  - Development of an equivalent s220 in Part 3 of the Code
  - Leadership role of PAs in promoting sustainable business practice

# Proposed Strategic Focus: Sustainability Reporting and Assurance

- **Strong support for IESBA to explore concept of expanding the scope of the Code to cover all sustainability assurance providers**
  - No comprehensive/ globally accepted ethics and independence standards
  - Welcomed efforts to create a level-playing field for the profession
- Need for comprehensive framework - monitoring, inspection & enforcement, QM system, professional competence
  - IOSCO suggested to first consider how Code may cascade through the ecosystem before concluding on any potential expanded remit to additional professionals
  - Recommend outreach with NSS, regulators, MG members for support and agreement
- Issues/ concerns raised include:
  - Misleading perception that other assurance providers are subject to same rigorous standards as PAPPs
  - The Code is intended for PAs and may not be suitable for others
  - If some parts of Code focus on nature of assurance services, it may require all parts of Code to refocus similarly
- Suggested solutions include:
  - A new Part 4C
  - Link the Code's requirements to the use of corresponding assurance standards
  - Development of guidance that could be adopted on voluntary basis and disclosed in assurance report
- A few suggested to consider expanding scope of Code to other assurance services, noting the increase in demand for assurance on IT-related services

# Considerations To-Date



## Recommendations to Inform IESBA Standard-setting

- Considered relevant legal/ regulatory developments (e.g., CSRD final text)
- Discussed the meaning of public interest in the context of sustainability reporting and assurance
- Reviewed Code's provisions from a "sustainability lens"; identified areas for potential enhancements and revisions to ethics and independence provisions
- Considered SWP survey respondents' responses to Q1-Q3
- Considered respondents' responses to Q11 of Technology ED

## Other Matters

- Provided final input on IESBA Staff publication on greenwashing
- Agreed to specific awareness raising activities/ communication plan (e.g., launch webpage, articles, webinar focused on independence issues)
- Considered how to progress discussions about extending the Code's provisions to assurance providers who are not professional accountants

# Current Analysis and Thinking

- Parts 2 and 3 provide applicable provisions for sustainability reporting, however, some enhancements are needed
  - FOR PAIBs: Refine terminology; provide context and topic-specific examples (especially in S220 and S230); it will be important to consider Technology-related revisions being finalized by TTF
  - FOR PAPPs: Leverage S220 to develop a new section (S315?) for PAPPs/ firms engaged to prepare and present information/ sustainability-related information (currently a gap in Code)
- International Independence Standards
  - Final text of CSRD touch on several topics in Part 4A; raise questions about scope/ purpose of Part 4A versus Part 4B of the Code
  - More robust independence provisions in Part 4A should apply when assuring information that is: (i) prepared under a general-purpose (fair presentation) framework; and (ii) is of heightened public interest
    - *Approach aligns with the conceptual framework that underpins IFRS and ISSB standards*
  - Clarify that sustainability assurance providers should be independent of the entity; and not only of the subject matter information

*Fundamental principles and conceptual framework are fit for purpose; Independence provisions in Part 4A are more suitable for sustainability assurance engagements*

*Principles-based provisions needed to accommodate broad range of topics and evolving nature of sustainability reporting*

*Sustainability information is of heightened public interest; Practitioners who provide assurance on sustainability reports should be subject to the same ethics/ independence standards as auditors of f/s*

# Matters to Consider in Relation to Independence



Due to public interest nature of sustainability reports, provisions in Part 4B of the Code is no longer an appropriate set of independence provisions that should apply when providing assurance

- Stakeholders, including regulators are calling for profession agnostic standards
  - Should priority be given to developing revisions to the Code for professional accountants (PAs)?
  - How best to draft and package sustainability-related revisions so that it is user friendly and accessible to professionals who are not PAs?
- The same ethics/ independence standards that apply to audits of f/s should apply to sustainability assurance (i.e., EC and SEC approach)
  - Input from regulators, sustainability assurance providers, and IAASB is critical
  - Important that Code remains aligned to revised IAASB's standards
- Measured approach to be taken to achieve accelerated response

# Proposed Way Forward

4 closely coordinated workstreams; Exposure Draft(s) by Sept 2023

## Ethics (Parts 2-3)

1. Develop sustainability-related ethics provisions for PAIBs and PAPPs that prepare sustainability information

*(Update terms/concepts; provides sustainability-related examples, including to help navigate “greenwashing” pressures; Clarify when to rely on third party data suppliers)*

## Independence (Parts 4A and 4B)

2. Provide specific criteria to explain which independence provisions apply when assuring sustainability information

*(Involves addition of a new Part 4; Will clarify that Part 4A applies when **providing assurance on information of heightened public interest and prepared using a general-purpose reporting framework**)*

## Considerations re: Specialists

3. Respond to specific issues arising when specialists are involved in sustainability-related assurance engagements\*

*(Will involve close coordination with IAASB; Will need to consider situations where specialists is used by management and assurance provider)*

## Resource for Non-PAs

4. Develop a stand-alone Guidance/ Handbook

*(Focused on helping professionals who are not PAs access and navigate ethics and independence standards)*

*Board to provide input to refine approach in November and will approve project plan in December 2022*

# Expanding the Code's to Other Professionals

- There are public interest merits of establishing measures to ensure that sustainability reports are always prepared and assured by professionals who are subject to (and held accountable to) a high quality of ethics and independence standards
  - Important that IESBA continue to champion global discussions; supported by focused and timely work now
  - Prioritize focused and targeted “Chair-to-Chair” and “staff-to-staff” discussions with regulators, including IOSCO, FSB and other MG members
  - Develop a forum to consider the perspectives of PAOs and NSS
  - Promote awareness, adoption and use of Code by non-PAs

# Questions/ Comments



# Draft Staff Guidance on Greenwashing

- Staff publication highlights the Code's provisions that help address stakeholders' concerns re greenwashing
  - Q&A format with questions based on a review of real-life cases
- Staff publication was developed with input from:
  - WG members
  - IESBA members
  - Staff of IFAC and IAASB
- Document was also circulated to Staff of IOSCO, GRI and UK FRC
- Subject to the IESBA's feedback, the Staff publication will be finalized and issued after the September meeting



# Questions/ Comments



# Next Steps...

- Focus is on progressing workstreams, including drafting standards
  - To be informed by outreach and responses to sustainability questionnaire
- **October/ November 2022**
  - Targeted outreach with key stakeholders including IAASB, IOSCO, ISSB, GRI, Forum of Firms
  - IESBA meeting on November 1, 2022
- **December 2022**
  - IESBA to receive project update from IAASB representatives
  - IESBA to approve sustainability project plan
  - IOSCO Roundtable (TBC)

**SUSTAINABILITY REPORTING AND ASSURANCE: A FOCUS  
ON ETHICS AND INDEPENDENCE**

Learn more at: [www.ethicsboard.org/focus-areas/sustainability-reporting-and-assurance](http://www.ethicsboard.org/focus-areas/sustainability-reporting-and-assurance)



# Appendix – Overview of the IESBA Code

**ACCESS THE CODE**

[www.ethicsboard.org/international-code-ethics-professional-accountants](http://www.ethicsboard.org/international-code-ethics-professional-accountants)

**DOWNLOAD THE 2021 IESBA  
HANDBOOK**



Click here for the latest edition of the Code.

**PURCHASE PRINT COPIES**



**e-International  
Standards**

Digital access to IESBA standards and resources

[ACCESS EIS](#)



# Overview of the Code

## **PART 1**

**Complying with the Code, Fundamental Principles  
and Conceptual Framework**

(Sections 100 to 199)

*(All Professional Accountants)*

## **PART 2**

**Professional Accountants  
in Business (PAIBs)**

(Sections 200 to 299)

*(Part 2 is also applicable to  
individuals PAPPs when  
performing professional  
activities pursuant to their  
relationship with the firm)*

## **PART 3**

**Professional Accountants  
in Public Practice (PAPPs)**

(Sections 300 to 399)

## **PARTS 4A & 4B**

**International Independence  
Standards**

Part 4A—Independence for Audits & Reviews

(Sections  
400 to 899)

Part 4B—Independence for Assurance Engagements  
Other than Audit & Review Engagements

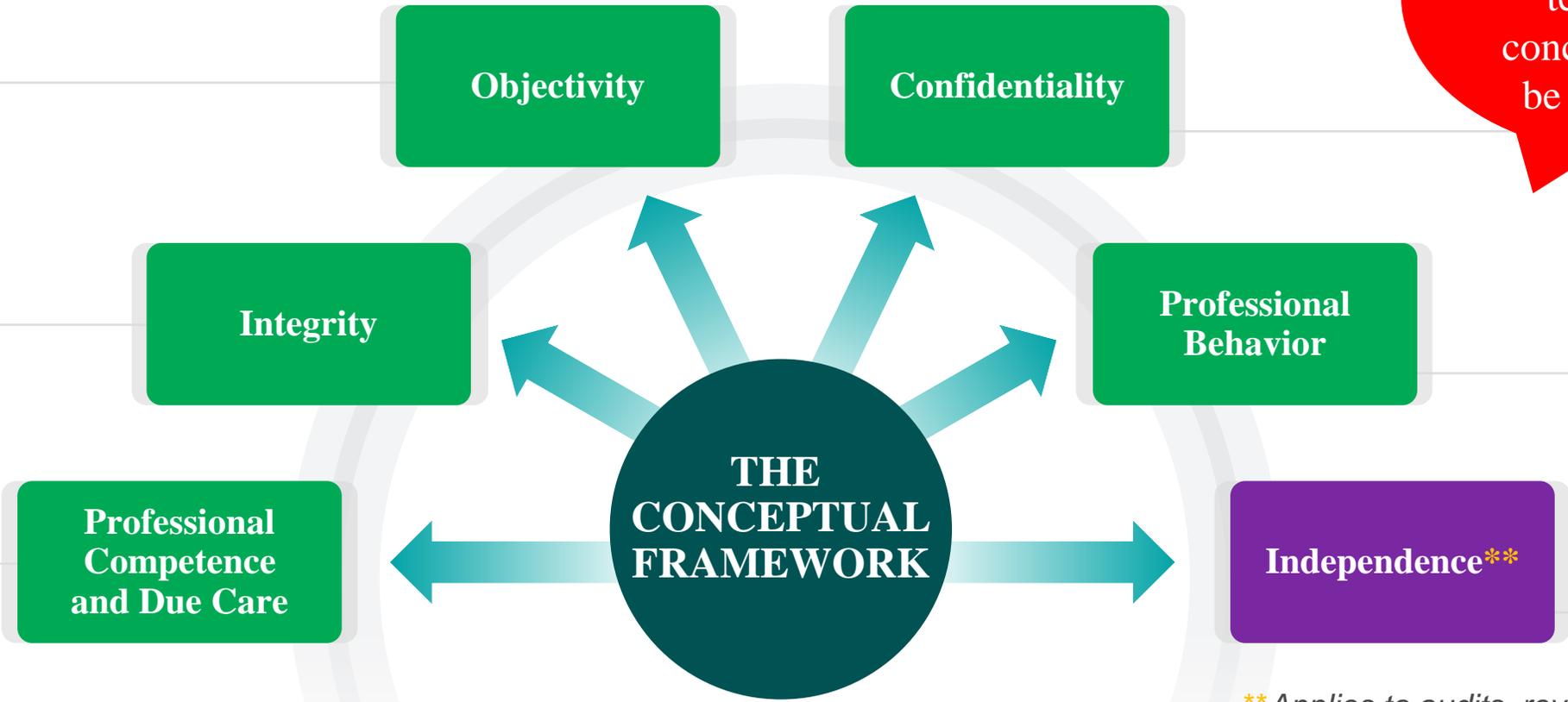
(Sections  
900 to 999)

## **GLOSSARY**

*(All Professional Accountants)*

# Part 1 – The Fundamental Principles, Conceptual Framework and Independence (Sections 100-120)

Limited refinements to terms and concepts might be necessary



\*\* Applies to audits, reviews and other assurance engagements

## Part 2 – PAIBs (Sections 200 – 270)

\*\*Revisions anticipated to provide sustainability-related examples/ context

### Section 200, *Applying the Conceptual Framework – PAIBs*

**Section 210, *Conflicts of Interest*\*\***

**Section 220, *Prep. & Pres. of Information*\*\***

**Section 230, *Acting with Sufficient Expertise*\*\***

**Section 240, *Fin. Ints, Comp... Linked to F/R***

**Section 250, *Inducements, incl. Gifts ...***

**Section 260, *Responding to NOCLAR***

**Section 270, *Pressure to Breach the FPs*\*\***

# Part 3 – PAPPs (Sections 300 – 360)

*Section 300,  
Applying the  
Conceptual  
Framework –  
PAPPs*

**Section 310, *Conflicts of Interest***

**Section 320, *Professional Appointments***

**Section 321, *Second Opinions***

**Section 325, *Objectivity of EQR and ...***

**Section 330, *Fees and Other Types of Rem.***

**Section 340, *Inducements, incl. Gifts ...***

**Section 350, *Custody of Client Assets***

**Section 360, *Responding to NOCLAR***

Consider leveraging applicable material in S220 to develop a new section (S315?) for PAPPs

# International Independence Standards

Add new Part 4;  
Clarify when to  
apply Part 4A versus  
Part 4B

## Part 4A: Independence for Audit and Review Engagements and Part 4B: Independence for Assurance Engagements other than Audit and Review Engagements

### *Key revisions to International Independence Standards that are not yet effective*

#### **Global Ethics Board Expands Universe of Entities that are Public Interest Entities**

*Expanded Public Interest Entity (PIE) Definition Complements Recently Strengthened International Independence Standards (IIS) in Relation to Non-Assurance Services and Fees Paid by Audit Clients*

APR 11, 2022 | NEW YORK, NY | ENGLISH

#### **IESBA Proposes Conforming Amendments to the Code Following Issuance of IAASB's Suite of Quality Management Standards**

AUG 05, 2021 | NEW YORK, NY | ENGLISH

#### **Global Ethics Board Takes Major Step Forward in Strengthening Auditor Independence**

*Comprehensive Package of New Measures to Safeguard Auditor Independence in Relation to Non-Assurance Services and Fees Paid by Audit Clients*

APR 28, 2021 | NEW YORK, NY | ENGLISH

# Part 4A – Audit & Review Engagements

## Section 400, *Applying the Conceptual Framework to Independence for Audits and Reviews*

- Section 410, *Fees*
- Section 411, *Compensation and Evaluation Policies*
- Section 420, *Gifts and Hospitality*
- Section 430, *Actual or Threatened Litigation*
- Section 510, *Financial Interests*
- Section 511, *Loans and Guarantees*
- Section 520, *Business Relationships*
- Section 521, *Family and Personal Relationships*
- Section 522, *Recent Service with an Audit Client*
- Section 523, *Serving as a Director or Officer of an Audit Client*
- Section 524, *Employment with an Audit Client*
- Section 525, *Temporary Personnel Assignment*
- Section 540, *Long Association ... with an Audit Client*
- Section 600, *Provision of NAS to an Audit Client*
- Section 800, *Reports on Special Purpose F/S that Include...*

Changes anticipated to title, introductory paragraphs etc to indicate new scope/ applicability

# Part 4B – Assurance Engagements Other than Audits & Reviews

Section 900, Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audits & Reviews

Section 905, *Fees*

Section 906, *Gifts and Hospitality*

Section 907, *Actual or Threatened Litigation*

Section 910, *Financial Interests*

Section 911, *Loans and Guarantees*

Section 920, *Business Relationships*

Section 921, *Family and Personal Relationships*

Section 922, *Recent Service with an Assurance Client*

Section 923, *Serving as a Director/Officer of an Assurance Client*

Section 924, *Employment with an Assurance Client*

Section 940, *Long Association ... with an Assurance Client*

Section 950, *Provision of NAS to an Assurance Client*

Section 990, *Reports that Include a Restriction on Use ...*

Determine revisions that are needed to ensure Part 4B remains fit for purpose