



Sustainability

Mark Babington, IESBA Member and Working Group Chair

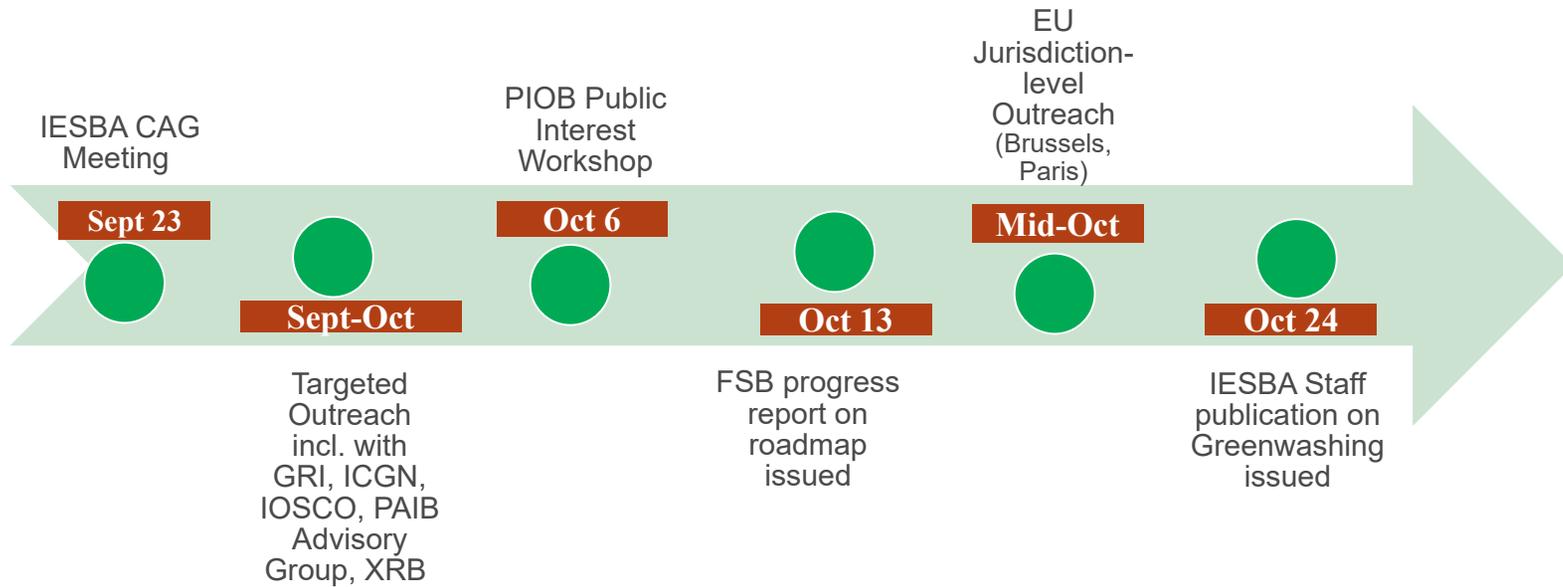
IESBA Virtual Meeting

November 1, 2022

Objectives

- To agree to an overall approach for developing profession agnostic ethics and independence standards for sustainability assurance engagements
- To consider other matters that are relevant in developing sustainability-related revisions to the Code, including:
 - Matters relating to revising Parts 1-3 of the Code to address sustainability reporting
 - Resources and timeline

Key Developments since September Meeting



Recap: Current Thinking

- Sustainability information is of heightened public interest → Used for capital allocation decisions
 - Sustainability assurance practitioners should be subject to the same ethics + independence standards as auditors of f/s when a general-purpose reporting framework is used
 - Same ethics + independence standards should apply regardless of who does the work
- Calls for profession agnostic standards for sustainability assurance
 - Map out and engage non-PAs to understand ethics and independence standards being used
 - Leverage extant IESBA Code, but also identify and address gaps
 - Determine how best to package (and draft) sustainability-related revisions to be profession agnostic
- Timely stakeholder engagement critical (esp. with IOSCO, IAASB, ISSB)
 - Revised ethics + independence standards to preserve link to IAASB's standards
- Measured approach and accelerated response necessary

Overview of Workstream Activities

As of Oct 2022

1 Independence

Determine drafting approach + Address gaps in ethics and independence provisions

Determine architecture for sustainability-related revisions

- Placement of independence revisions (Part 4A/ or 4A*)
- Criteria to explain which provisions apply (new Part 4)
- Consequential amendments to Part 4B

Adapt/ revise existing definitions (e.g., audit team, engagement team, group audit team, professional activities,...)

Establish definitions for sustainability-specific terms (e.g., sustainability information, sustainability assurance team, sustainability assurance leader)

Identify issues: What are the threats to FPs (and independence)? What are the safeguards? Conflict of interest situations? Which activities, relationships, and financial interests should be prohibited? Any unique ethics challenges for sustainability?

Should ethics responsibilities vary based on the PAIB's role and seniority in employing organization?

Develop new PAPP section for providing services relating to sustainability reporting + sustainability assurance readiness (leverage extant Part 2)

Expand on ethics material re exercising discretion and professional judgment when a general-purpose framework is not used to prepare sustainability information

Joint thinking/ coordination, including with IAASB/ ISSB

Leverage extant Code and consider standards used by non-PAs

2 Sustainability Reporting

Provide context and examples + Address gaps in ethics provisions

Should the Code reflect different considerations and mindset required to achieve sustainability-related objectives?

3 Experts

Address issues re use of experts in sustainability reporting and assurance + Use of experts more broadly

Liaise with other Task Forces (and IAASB) to **identify and respond to specific ethics and independence issues** (i.e., Sustainability, Tax Planning, ET-GA and Technology Task Forces)

Develop principles-based proposed revisions taking into account topic-specific input from each Task Force (and IAASB)

Activities

Four Potential Options to Consider in Developing Revisions to the Extant Code

Revisions to Part 4A

Option 1

Involves the use of “sustainability assurance engagements” without amending the definition of “audit” as used in Part 4A

- Retain provisions that apply to audit and review engagements
- Adapt definitions and key concepts, especially those arising from ET-GA project; Establish/ tweak definitions for sustainability
- Add sustainability-specific examples and guidance
- Align to IAASB’s proposed ISSA 5000

Option 2

Based on extant current model – the term “audit” is extended to include “sustainability assurance engagements” in addition to as well as “review” engagements.

Option 3

Approach uses more general terms (e.g., “practitioner” and “engagement”).

Proposed ET-GA revisions not yet considered; Will need to adapt/ revise new definitions arising from ET-GA work.

Establish separate Part 4A*

Option 4

Involves revisions to extant Part 4A to address independence only for “sustainability assurance engagements.”

Will be positioned before Part 4B

Similar to Option 1, but without any references to “audit.”

- Delete provisions that apply to audit and review engagements
- Establish/ adapt definitions for sustainability assurance
- Add sustainability-specific examples and guidance
- Align to IAASB’s ISSA 5000

Options set out profession-agnostic independence provisions to be included in Code for PAs → *Should title of Code also change?*

Input from Planning Committee

- Recognize the need to be able to *pivot* and respond to a fast-developing situation, for example:
 - Option 4 serves as starting point for drafting separate profession agnostic independence provisions; but is there is a need to also revise ethics standards
 - Consider the relevance of the entire Code, including Parts 1 to 3 to decide on what can be leveraged for sustainability assurance; outline for Guidance document might be a useful starting point in deciding on key topics to be covered
- Why change the extant Code, especially since doing so might involve changes to near-final ET-GA definitions?
- Pathway to adoption by non-PAs not yet identified; jurisdiction-level action by regulators and NSS is required
 - Risk that existing users of the Code (i.e., PAs) might not find it attractive to refer to two handbooks for ethics and independence standards
 - Risk that existing jurisdictional mechanisms to adopt the Code do not apply to a second Code without legislative change

Are there unintentional consequences that might arise if IESBA moves away from having ONE Code of Ethics for PAs that can be applied in all circumstances, and for all types of engagements?

Input from Planning Committee

A Revisions to extant IESBA Code*

B Entirely Separate Handbook

WG recommendation based on indicative direction from IESBA

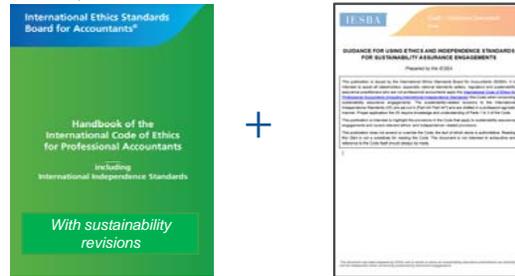
Some PC members alternative proposal

September 2023



Involves revisions to Part 4A OR new Part 4A

Q4 2024



Matters for IESBA Consideration

1. IESBA members are asked to:

- a) Consider the options put forward, in particular those set out in **Agenda Items 1-A.1 to 1-A.4** and indicate preferred approach
- b) Note initial thinking re Project Plan and Project Timeline and provide input to WG as it develops the Sustainability Project Proposal(s)

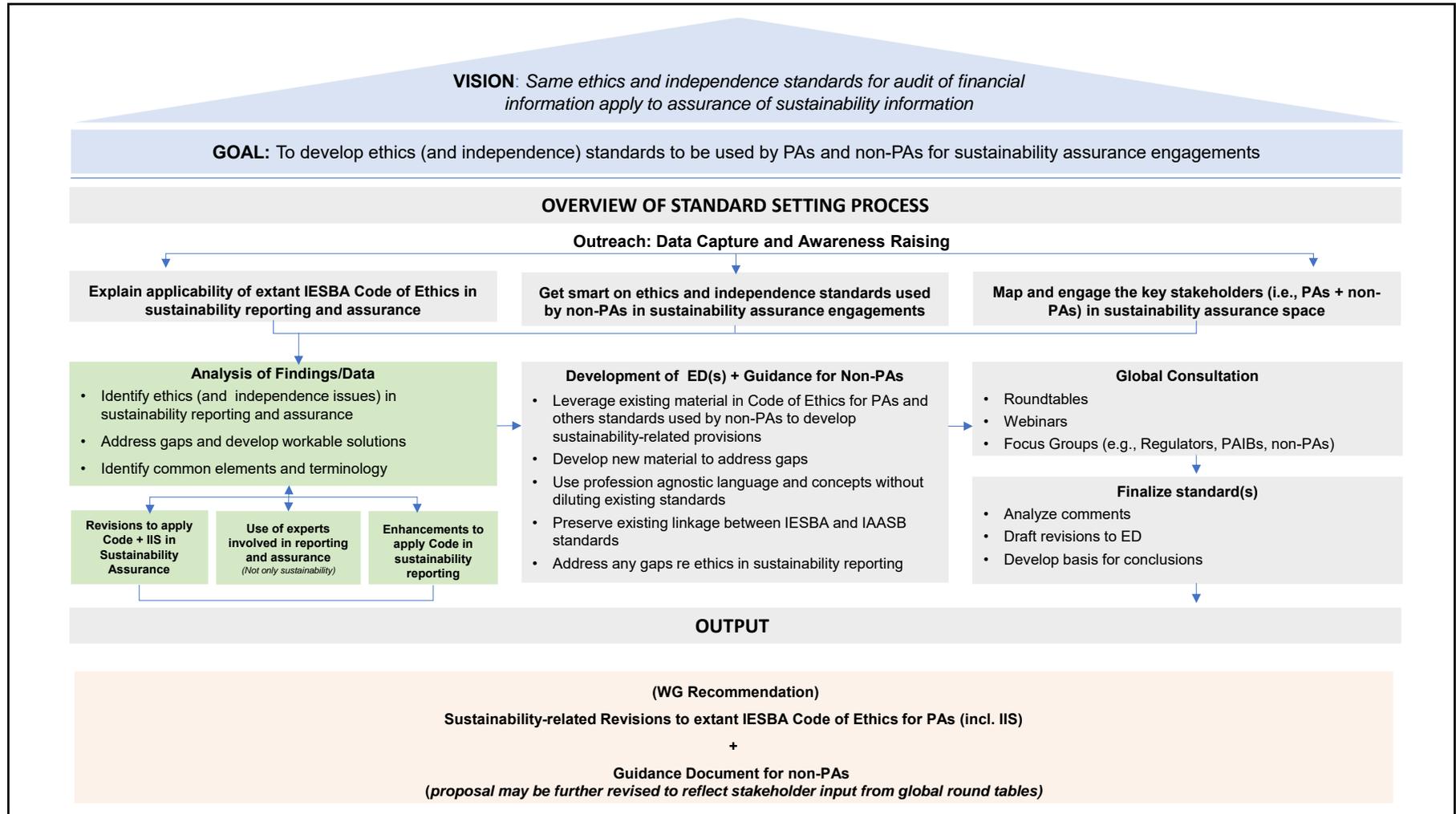




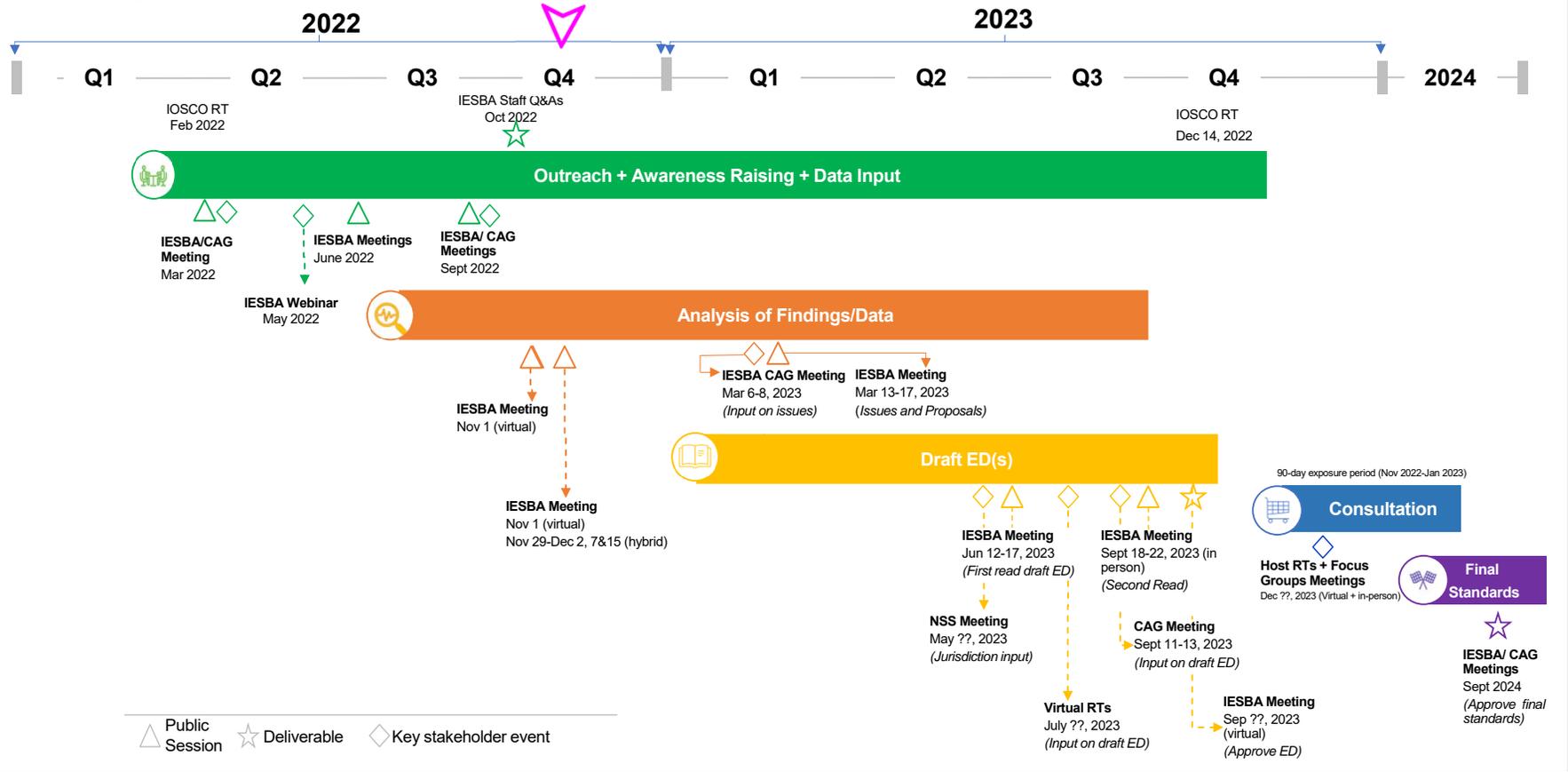
Sustainability Project Plan and Timeline*

(For information only)

****To be discussed at Nov/Dec IESBA Meeting***



Project Timeline



Ref: Overview of Parts and Sections in Code

Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework

Section 100 Complying with the Code

Section 110 The Fundamental Principles

§ Section 120 The Conceptual Framework

Part 2 Professional Accountants in Business

- Section 200 Applying the Conceptual Framework
- Section 210 Conflicts of Interest
- Section 220 Preparation and Presentation of Information
- Section 230 Acting with Sufficient Expertise
- Section 240 Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making
- Section 250 Inducements, including Gifts and Hospitality
- Section 260 Responding to Non-compliance with Laws and Regulations
- § Section 270 Pressure to Breach the Fundamental Principles

Part 3 Professional Accountants in Public Practice

- ^ § Section 300 Applying the Conceptual Framework
- Section 310 Conflicts of Interest
- § Section 320 Professional Appointments
- Section 321 Second Opinions
- ^ Section 325 Objectivity of an Engagement Reviewer and Other Appropriate Reviewers

- § Section 330 Fees and Other Types of Remuneration
- Section 340 Inducements, Including Gifts and Hospitality
- Section 350 Custody of Client Assets
- Section 360 Responding to Non-compliance with Laws and Regulations

International Independence Standards (Parts 4A and 4B)

Part 4A Independence for Audit and Review Engagements

- § ^ Section 400 Applying the Conceptual Framework to Independence for Audit and Review Engagements
- § 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 Assignments
- ^ Section 540 Long Association of Personnel (Including Partner Rotation) with an Audit Client
- ^ Section 600 Provision of Non-Assurance Services to an Audit Client
- Section 800 Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagements)

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

- ^ § Section 900 Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements
- 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 or Officer of an Assurance Client
- Section 924 Employment with an Assurance Client
- Section 940 Long Association of Personnel with an Assurance Client
- ^ Section 950 Provision of Non-Assurance Services to Assurance Clients Other than Audit and Review Engagement Clients
- Section 990 Reports that Include a Restriction on Use and Distribution (Assurance Engagements Other than Audit and Review Engagements)

The 2022 Edition of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) was issued in September 2022 and incorporates the following revisions that will become effective in December 2022:

- The revisions to the non-assurance services (NAS) and fee-related provisions of the Code.
- The revisions to address the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers.
- The quality management-related conforming amendments to the Code that were issued as a result of the finalization of the International Auditing and Assurance Standards Board's (IAASB) suite of quality management standards.

In addition, the 2022 edition of the Code contains the IESBA approved revised definition of a public interest entity that will become effective in December 2024.

[Click here](#) to access the Code, including the eCode and e-International Standards.



1. This document is prepared by the staff of the IESBA and illustrates the sections of the Code that were revised since the 2021 edition:

- § Includes the fee-related revisions to the Code.
- ^ Includes the NAS-related revisions to the Code.
- ^ Includes the revisions to address objectivity of an engagement quality reviewer and other appropriate reviewers.
- Includes conforming amendments to the Code arising from the IAASB's quality management project



www.ethicsboard.org

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

Follow at: www.ethicsboard.org/focus-areas/sustainability-reporting-and-assurance



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



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



YouTube [@IESBA](https://www.youtube.com/channel/UC10000000000000000000)