

Sustainability Work Stream 2

September 2023 CAG Meeting

Christelle Martin, IESBA Member and WS2 Chair

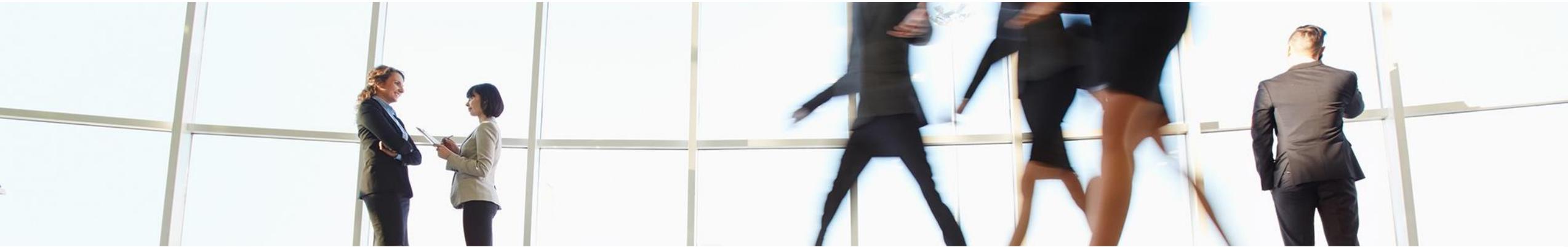
Laura Leal, IESBA Principal

Objective

To consider and share views on:

- ✓ Report-Back on IESBA's Global Sustainability Roundtables and Other Key Outreaches
- ✓ WS2's Proposals on:
 - ❖ Scope of Ethics Standards – Sustainability Reporting
 - ❖ Scope of Ethics Standards – Sustainability Assurance
 - ❖ Communicating NOCLAR to Auditor / SAP
 - ❖ Definition of “Sustainability Information”





Report-Back on Global Roundtables



Global Sustainability Roundtables (Mar/Apr 2023)

4 Roundtables –
Paris, Sydney,
Singapore, New York

142 participants from
wide range of
stakeholder groups

Participants from 84
organizations

Refer to IESBA June
[Agenda Item 2-A](#)

Stakeholder Category	# Participants	%
Accounting Firm	36	25%
Professional Accountancy Organization	23	16%
Regulator	20	14%
User/Investor	13	9%
Non-Professional Accountant	12	8%
Global/Regional Standards Setter	9	6%
Preparer/TCWG	8	6%
Independent National Standard Setter	8	6%
Academic	7	5%
Other	6	4%
Total	142	100%



Global Sustainability Roundtables

- Importance of ethics and independence standards and IESBA's role in the sustainability standards infrastructure
- General support for ethics and independence standards for sustainability assurance equivalent to audit
- Broad support for profession-agnostic ethics and independence standards for sustainability assurance
- Overwhelming support for a new Part 5 within the Code for sustainability assurance engagements
- Whilst acknowledge importance of having a system of quality management, challenges implementing ISQM 1 for non-professional accountants (PAs)

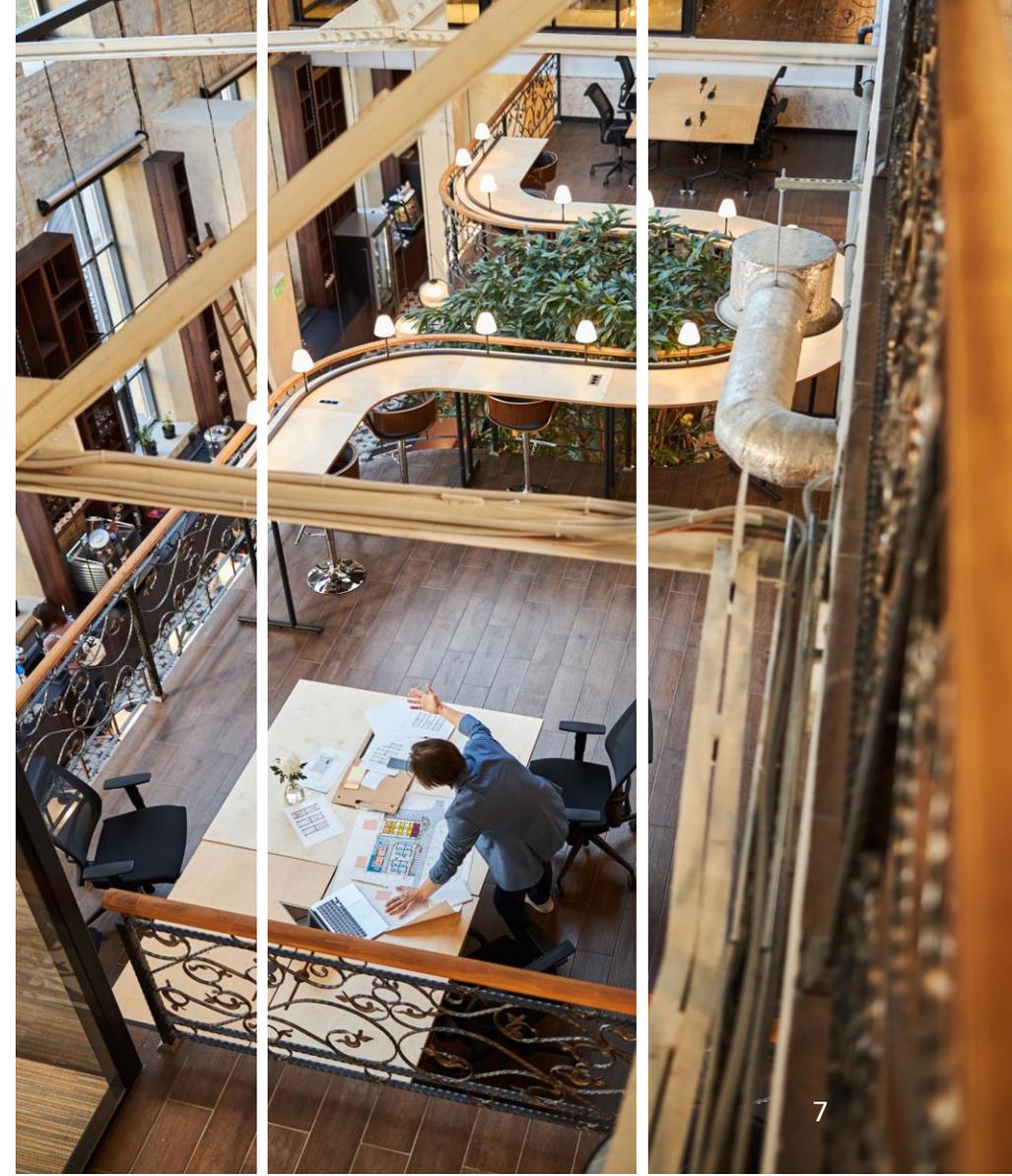


Global Sustainability Roundtables

- Input on specific ethics issues re sustainability reporting and assurance:
 - Immature sustainability reporting environment
 - Non-PAs lack of experience or familiarity with the Code
 - Undue pressure
 - Value chain considerations
- Importance of profession-agnostic ethics standards for sustainability reporting recognized
 - But doubts about enforceability for non-PAs

Other Key Outreaches in Q2 and Q3 2023

- ✓ ISO Joint Working Group and Committee for Conformity Assessment
- ✓ ISSB
- ✓ IAF
- ✓ IFIAR SCWG and Plenary
- ✓ Financial Stability Board Roundtable
- ✓ IOSCO Sustainable Finance Task Force
- ✓ IFAC SMP Advisory Group
- ✓ Forum of Firms
- ✓ CReCER
- ✓ African Congress of Accountants
- ✓ ISSB-ACMF Joint Conference in Singapore
- ✓ Accountancy Europe Roundtable
- ✓ Germany and Japan outreaches



IESBA Sustainability Reference Group

Key Objectives

- To act as sounding board to the Task Force on proposals
- To provide insights, expertise or advice
- To provide input to, or otherwise assist in, the development of non-authoritative guidance material

Name	Organization	Location
Kate Akery	Collins Aerospace	Europe
Antonio Astone	DNV	Europe
Michael Bray	Deakin University	Oceania
Charlotte Drain	Deloitte LLP	Europe
Dongsoo Kim	AccountAbility	Asia
Samantha Ross	AssuranceMark	North America
Michael Tang	SGX Group	Asia
Onara Oliveira de Lima	CCR Group	South America
Olga Rivas	Independent International Organisation for Certification	International
TBC		Africa

Questions/ Comments

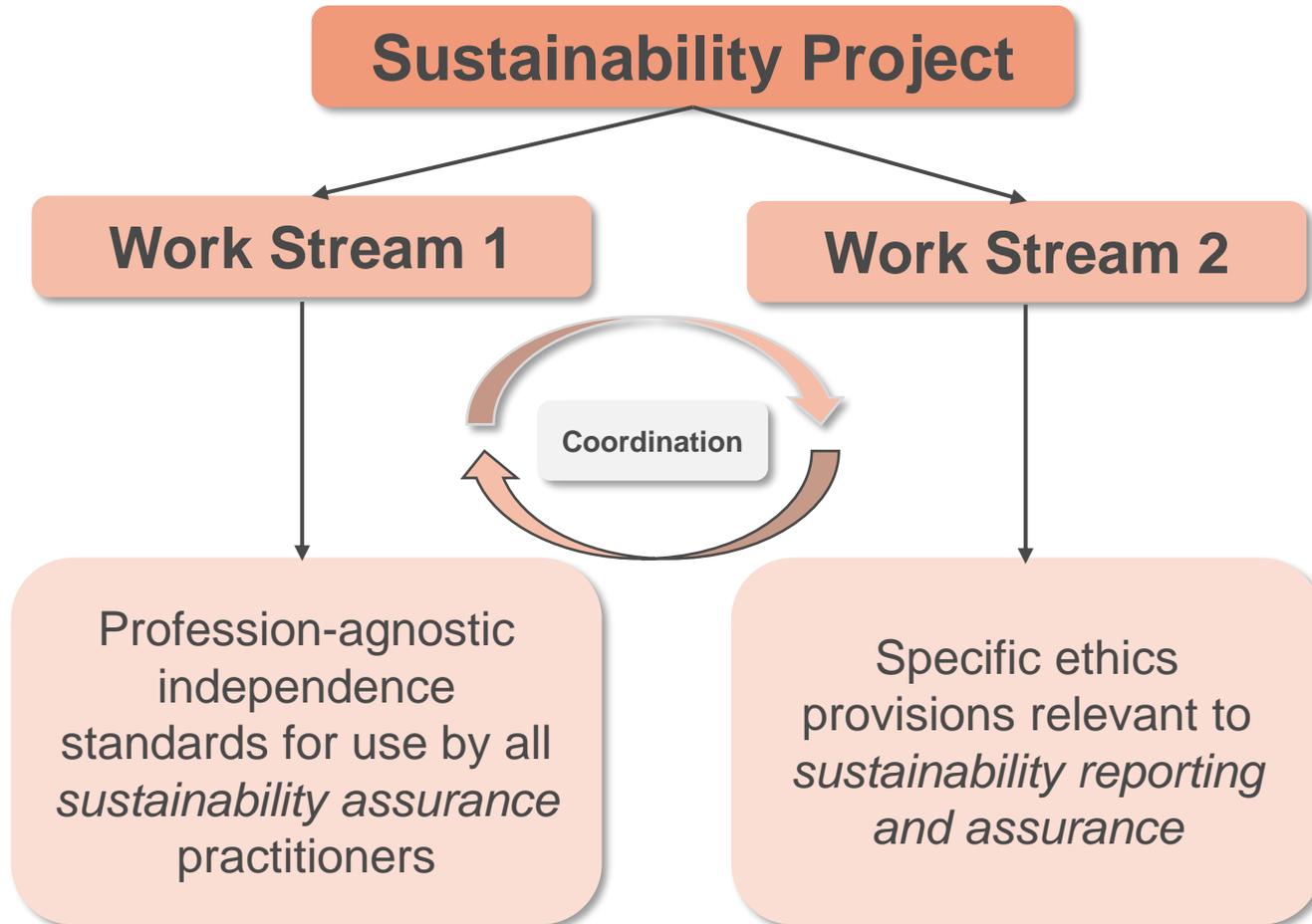




Ethics – Scope of Reporting Standards



Sustainability Reporting – Recap



IESBA's sustainability project includes revising the Code to address ethics for **sustainability reporting** recognizing:

- Preparers are the first line of defense against “greenwashing”
- Ethics is a critical part of the infrastructure to support transparent, relevant and trustworthy reporting

Sustainability Reporting – Scope

IESBA determined in June 2023 to develop ethics standards for sustainability reporting though not in a profession-agnostic way at this time because:

- No current international regulatory call for ethics standards for sustainability reporting for non-PAs
- No support from global sustainability roundtables for profession-agnostic standards at this time:
 - More of a corporate governance issue
 - Requires regulatory action first
- Expanding the scope of sustainability reporting to all preparers is a broader issue which will require time to address



Sustainability Reporting – Scope

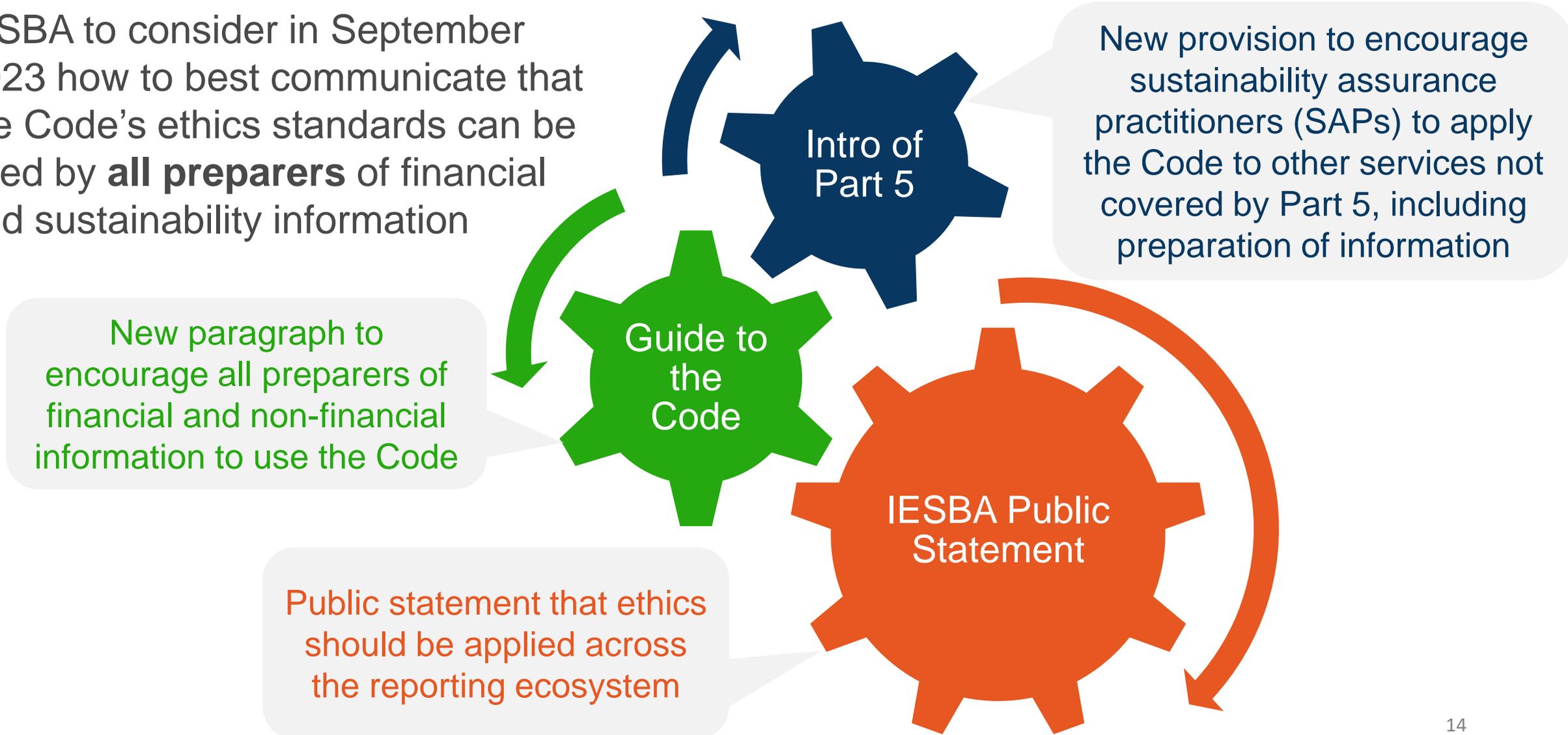
However, the IESBA Code already contains ethics standards that can be applied by **all preparers of financial and sustainability** information recognizing:

- Importance of ethics across the reporting ecosystem
- Critical role for regulators and corporate governance frameworks

IESBA will continue to explore the option to expand the Code to other professionals as part of its broader strategy in the foreseeable future

WS2 Recommendation

IESBA to consider in September 2023 how to best communicate that the Code's ethics standards can be used by **all preparers** of financial and sustainability information



New provision to encourage sustainability assurance practitioners (SAPs) to apply the Code to other services not covered by Part 5, including preparation of information

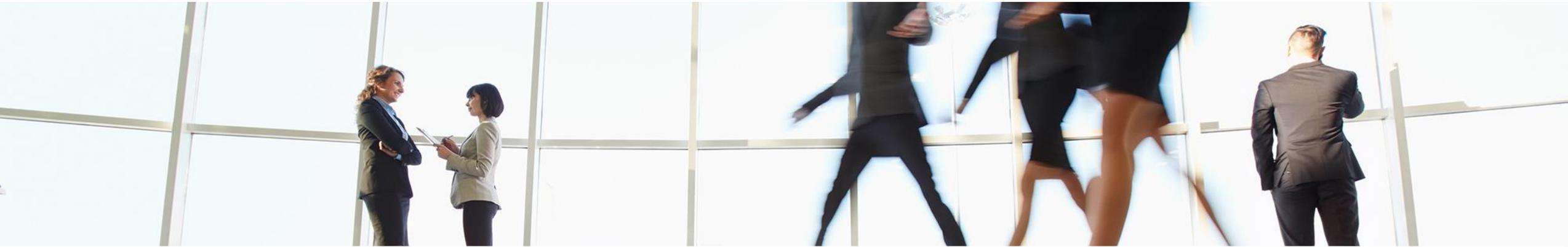
New paragraph to encourage all preparers of financial and non-financial information to use the Code

Public statement that ethics should be applied across the reporting ecosystem

CAG Representatives are asked to share views on:

- IESBA's scope of ethics standards for sustainability reporting





Ethics – Scope of Assurance Standards



Scope – Which activities should be covered

Scope of extant Code – focus on one profession (PAs)

Scope of project – focus on one type of service (sustainability assurance engagements - SAEs) by practitioners from different professions/ industries/ fields

This raises questions about scope of ethics standards for sustainability assurance engagements (i.e. which activities should be covered)

WS2 identified 3 options for consideration

Sustainability Assurance – Scope

Option 1

Sustainability assurance engagements (SAEs) that meet the independence criteria only

Option 2

All sustainability assurance engagements & other services by sustainability assurance practitioners (SAPs) for the same clients

Option 3

All services by sustainability assurance practitioners for all clients

Narrow



Broad

WS2 Recommendation

Option 2

All sustainability assurance engagements & other services by sustainability assurance practitioners for the same clients



Explicit reminder for sustainability assurance practitioners who are **PAs** that Parts 1 to 4B of the Code continue to apply & Encouragement for **non-PAs** to use the Code for everything not covered by Part 5 since other aspects of the conduct of sustainability assurance practitioners may contribute to (or impair) public trust underpinning sustainability assurance

WS2 Rationale – Why all SAEs?

Ethics – Part 5

All sustainability assurance engagements

+ other services for the same clients

Independence – Part 5

Sustainability assurance engagements that meet certain criteria (see WS1)



Rationale:

- The extant Code has two sets of independence standards for assurance engagements: Part 4A and Part 4B
 - For independence purposes, equivalence with audits of FS means equivalence with Part 4A, hence WS1 developing criteria for certain SAEs that should be at same level as audits
- However, the extant Code only has one set of ethics standards for PAPPs, so making the same distinction is not necessary

WS2 Rationale – Why “other services”?

Potential lack of compliance with FPs in other services that SAPs provide to sustainability assurance clients may have direct impact on public trust underpinning sustainability assurance.

Aligned with **PIF characteristics:**

- *Consistency* with priorities and scope of project
- *Coherence* with other IESBA standards
- Appropriate *scope* and relevance of IESBA standards



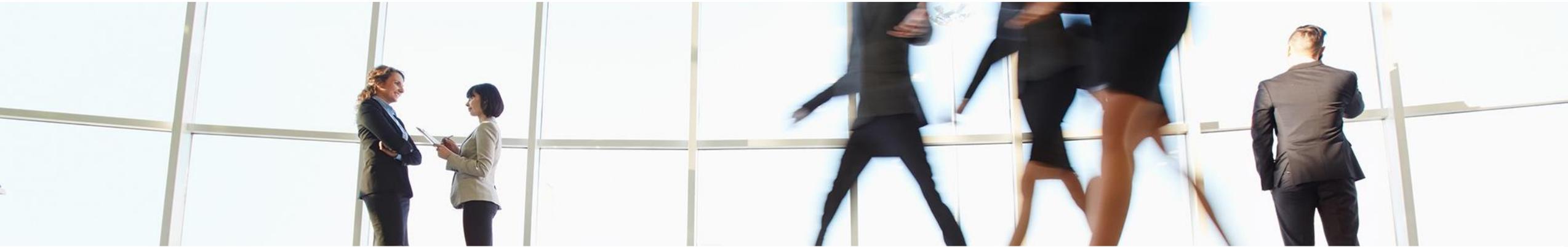
Summary of WS2 Recommendations (Ethics)

	Sustainability assurance engagements	Other services for a client to which the practitioner provides sustainability assurance	Relationship with other clients	Details of relationship with firm
	That meet the independence criteria	Other SAEs		
PAAs	Part 5	Part 5	Parts 1-3	Part 2
Non-PAAs	Part 5	Part 5	(**) Introductory paragraph in Part 5 encourages non-PAAs to use the Code in all situations not covered by Part 5	

CAG Representatives are asked to share views on:

- IESBA's proposed scope of ethics standards for sustainability assurance





Communicating NOCLAR to Auditor/SAP



Communicating NOCLAR

Extant Part 3 s360

Current Regime

Audit of FS

PA (Auditor) has no responsibility to communicate with other PAs

Services other than audit

PA responsibility to communicate with Auditor

WS2 Proposal - Summary

Part 3

s360

Part 5

s5360

Audit of FS

New responsibility for
PA (Auditor) to
communicate with SAP

SAE that meets
independence criteria

Responsibility of SAP to
communicate with
Auditor

(see slide 27)

Services other than audit

No change in PA
responsibility to
communicate with
Auditor

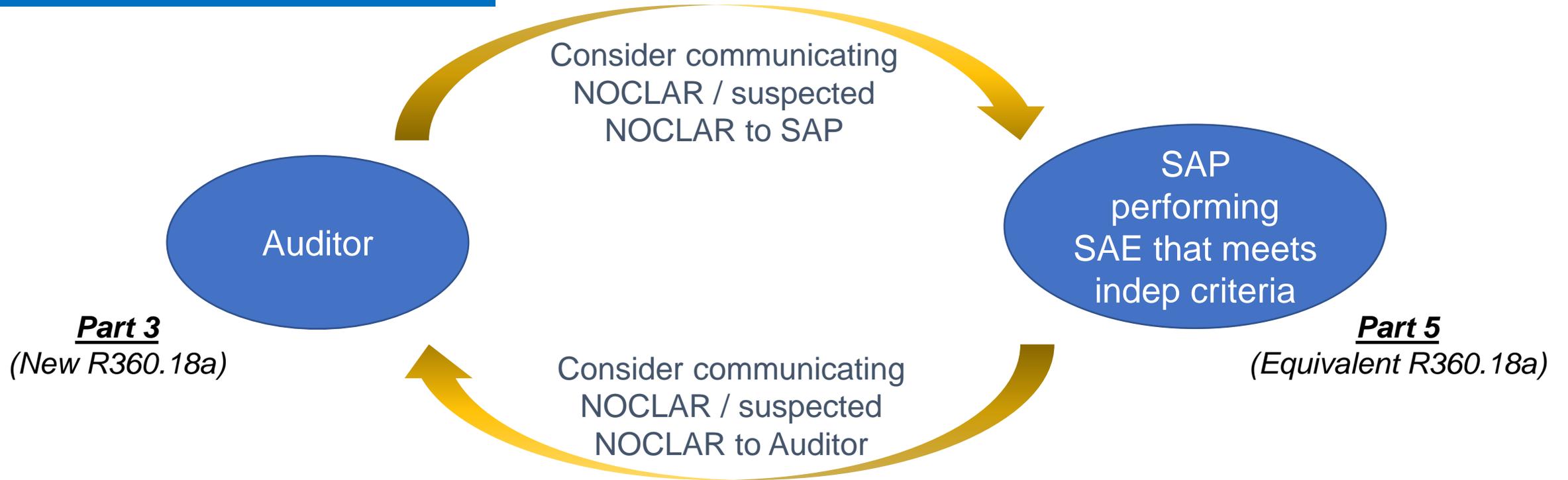
Other SAEs and
engagements

Responsibility of SAP to
communicate with
Auditor

(see slide 28)

Communicating NOCLAR

WS2 Proposal



Rationale:

Audit of FS

same public interest

SAE that meets independence criteria

Part 3

s360

Services other than audit

No change in existing PA responsibility to communicate with Auditor

Mirror

Part 5

s5360

Other SAEs and services

Responsibility of SAP to communicate with Auditor that mirrors Part 3

Mirror

Rationale:

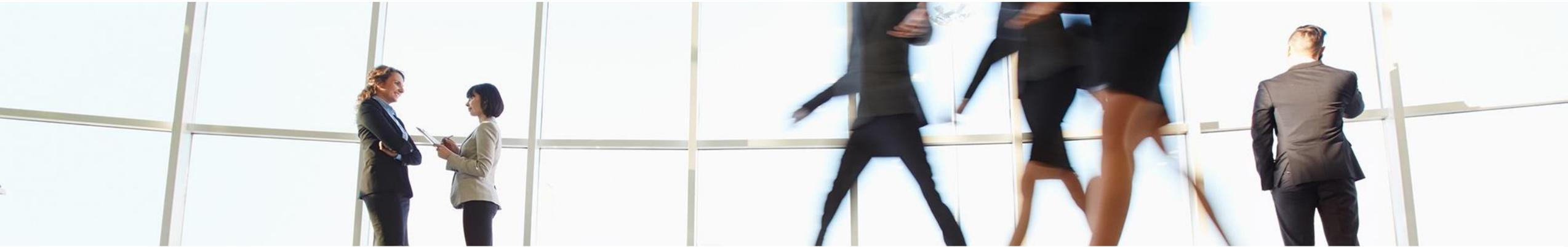
Communicating NOCLAR to the auditor is particularly relevant

- Given the financial materiality aspect of sustainability reporting, the identification of NOCLAR in sustainability assurance will most likely have an impact on the audit of FS

CAG Representatives are asked to share views on:

- IESBA's proposed approach to communication provisions under NOCLAR in Part 3 and Part 5

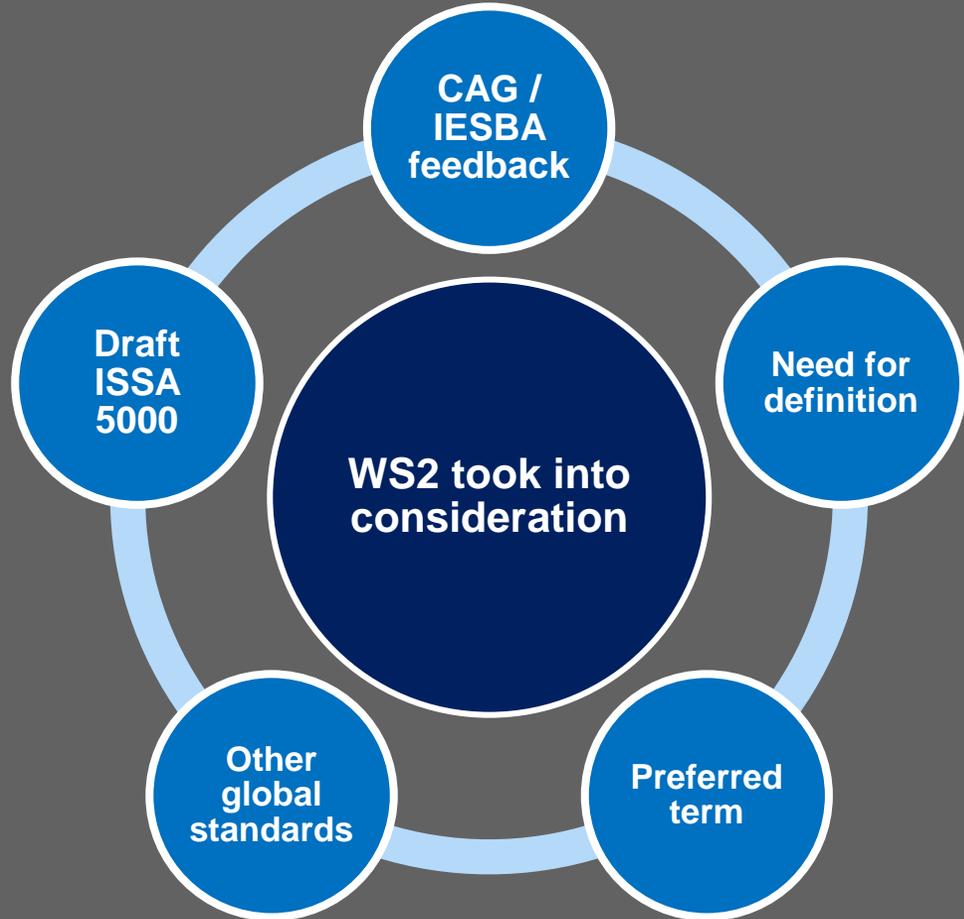




Definition of “Sustainability Information”



Sustainability Information – Recap



CAG + IESBA feedback

- CAG generally supportive (Mar 2023)
- IESBA supportive of a definition (Jun 2023)

Need for definition

- Terms used in Part 5 and revised Parts 1-3
- Definition is necessary for clarification

Preferred term

- Other terms considered include “sustainability matters”, “sustainability data”, “sustainability factors”
- Took into account PIF characteristics

Development of IAASB’s draft ISSA 5000

- Technical term “sustainability information” and new term “sustainability matters”

Other global standards



Other Global Standards

UN

*In 1987, the United Nations Brundtland Commission defined **sustainability** as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”*

ISSB (S1)

Sustainability-related financial disclosures [means] *A particular form of general purpose financial reports that provide information about the reporting entity’s sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term, including information about the entity’s governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.*

EFRAG

‘Sustainability matters’ [means] *Environmental, social and human rights, and governance factors, including sustainability factors defined in Article 2, point (24), of Regulation (EU) 2019/2088 of the European Parliament and of the Council*



Article 2, point (24) of Regulation (EU) 2019/2088:

‘sustainability factors’ mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters

Other Global Standards

GRI

Sustainable development / sustainability [means] development that meets the needs of the present without compromising the ability of future generations to meet their own needs

****Impacts** [means the] effect the organization has or could have on the economy, environment, and people, including on their human rights, which in turn can indicate its contribution (negative or positive) to sustainable development. Impacts can be actual or potential, negative or positive, short-term or long-term, intended or unintended, and reversible or irreversible.

ISO

ISO 14065 and 17029 use 'sustainability [reports/reporting]' but do **not define** it. Coordination activities between IESBA-ISO Staff indicates that ISO has **no current plan to define** 'sustainability' / 'sustainability information'

AccountAbility

AA1000 Assurance Standard v3 uses the terms 'sustainability', 'sustainability information', 'sustainability topics', and 'sustainability performance' but does **not define** them

Sustainability Information

WS2 Revised Draft (Sep 2023)

- (a) Information expressed in financial or non-financial terms, historical or forward-looking, about the opportunities, risks or impacts of:
 - (i) Economic, environmental, social, governance or other sustainability factors on an entity's activities, services or products; or
 - (ii) An entity's activities, services or products on the economy, the environment or the public; or
- (b) Information defined by law, regulation or the relevant reporting or assurance framework as “sustainability information” or equivalent terms or descriptions.

Sustainability information includes information that may be:

- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain such as customers and suppliers.*
- *Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.*
- *Described in an entity's policies, plans, goals, commitments or representations.*

Sustainability Information – WS2 Draft Explained

Definition

(Subparagraphs a + b)

Expanded reference beyond ESG to recognize growing sustainability topics

Opportunities, risks and impacts on or by the entity (single or double materiality)

Subparagraph (b) scopes in legal definitions and other frameworks (legal or voluntary) **including ISSA 5000** (interoperability & framework neutrality)

- (a) Information expressed in financial or non-financial terms, historical or forward-looking, about the **opportunities, risks or impacts of:**
 - (i) **Economic, environmental, social, governance or other sustainability factors on an entity's activities, services or products;** or
 - (ii) An entity's activities, services or products **on the economy, the environment or the public;** or
- (b) Information defined by **law, regulation or the relevant reporting or assurance framework** as “sustainability information” **or equivalent** terms or descriptions.

Sustainability Information – WS2 Draft Explained

Description (*italics*)

Information not disclosed or disclosed by law or voluntarily

References to value chain

Evaluation of past and future performance

Non-exhaustive illustration

Sustainability information includes information that may be:

- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain such as customers and suppliers.*
- *Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.*
- *Described in an entity's policies, plans, goals, commitments or representations.*

Alignment of IESBA & IAASB Definitions

Two related terms in IAASB's proposed ISSA 5000 (out for public consultation)

Sustainability Information

Information about “sustainability matters”



Sustainability Matters

This new term defined in similar way to WS2's revised draft of “sustainability information”

Exposure Draft
August 2023
Comments due: December 1, 2023

International Standard on Sustainability Assurance

Proposed International Standard
on Sustainability Assurance
5000

General Requirements for
Sustainability Assurance
Engagements

and

Proposed Conforming and
Consequential Amendments to
Other IAASB Standards

*This Exposure Draft is intended to be read
along with the separate Explanatory
Memorandum.*

IAASB International Auditing
and Assurance
Standards Board

Alignment of IESBA & IAASB Definitions

IESBA

- (a) Information expressed in financial or non-financial terms, historical or forward-looking, about the **opportunities, risks or impacts of:**
- (i) **Economic, environmental, social, governance or other sustainability factors on an entity's activities, services or products;** or
 - (ii) An entity's **activities, services or products on the economy, the environment or the public;** or

(b) Information defined by law, regulation or the relevant reporting or assurance framework as "sustainability information" or equivalent terms or descriptions.

Sustainability information includes information that may be:

- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain such as customers and suppliers.*
- *Related to the quantitative or qualitative evaluation of an entity's past or expected **performance** over the short, medium or long term.*
- *Described in an entity's **policies, plans, goals**, commitments or representations.*

IAASB

(uu) Sustainability information – Information about sustainability matters. Sustainability information results from measuring or evaluating sustainability matters against the applicable criteria. For purposes of the ISSAs, sustainability information is the equivalent of "subject matter information" in other IAASB assurance standards. (Ref: Para. A32)

(vv) Sustainability matters – **Environmental, social, economic and cultural matters**, including:

- (i) The **impacts of an entity's activities, products and services** on the environment, society, economy or culture, **or the impacts on the entity**, and
- (ii) The entity's **policies, performance, plans, goals and governance** relating to such matters.

For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the applicable criteria are the equivalent of "underlying subject matter" in other IAASB assurance standards.

CAG Representatives are asked to share views on:

- IESBA's proposed definition of "sustainability information"





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