

## Agenda Item

# A1

**Meeting:** IESBA Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** September 11, 2023

**Draft Minutes of the Public Session of the Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS CONSULTATIVE  
ADVISORY GROUP (CAG)  
Held on March 6, 2023**

### PRESENT

Gaylen Hansen (Chair)  
Hilde Blomme  
Prof. Hysen Cela  
James Dalkin  
Michael Fritz  
Jazmin Gamboa  
Harrison Greene  
Akihito Ishiwata  
Natasha Landell-Mills  
Dr. Bello Lawal Danbatta  
Dr. Conchita Manabat  
Wei Meng  
Asha Mubarak  
Dr. Claes Norberg  
Dr. Christian Orth  
Jeanne Riggs  
Daniel Sarmiento Pavas  
Sandra Peters  
Juan Carlos  
Serrano-Machorro  
Paul Sobel

### Member Organizations

National Association of State Boards of Accountancy (NASBA)  
Accountancy Europe (AE)  
European Federation of Accountants and Auditors for SMEs (EFAA)  
International Organization of Supreme Audit Institutions (INTOSAI)  
National Association of State Boards of Accountancy (NASBA)  
Financial Executives International (FEI)  
Basel Committee on Banking Supervision (Basel Committee)  
International Organization of Securities Commissions (IOSCO)  
International Corporate Governance Network (ICGN)  
Islamic Financial Services Board (IFSB)  
International Association of Financial Executives Institutes (IAFEI)  
World Federation of Exchanges (WFE)  
Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)  
Business Europe (BE)  
AE  
IOSCO  
Inter-American Accounting Association (IAA)  
Chartered Financial Analyst (CFA) Institute  
World Bank (WB)  
Institute of Internal Auditors (IIA)

Peter Stokhof	Organisation for Economic Co-operation and Development (OECD)
Paul Thompson	EFAA
Huseyin Yurdakul	IOSCO

**Observer Organizations**

Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Advisory Group (SMPAG)
Barbara Vanich <sup>1</sup>	U.S. Public Company Accounting Oversight Board (PCAOB)

**Public Interest Oversight Board (PIOB)**

Dave Sullivan

**IESBA Members and Staff**

Gabriela Figueiredo Dias	IESBA Chair
Laurie Endsley	IESBA Vice Chair
Mark Babington	IESBA Member and Sustainability Work Stream 1 One Chair
Christelle Martin	IESBA Member and Sustainability Work Stream 2 Two Chair
Vania Borgerth	IESBA Member and Emerging Issues and Outreach Committee (EIOC) Chair
James Gunn	Managing Director, Professional Standards
Ken Siong	IESBA Program and Senior Director
Geoffrey Kwan	IESBA Director
Laura Leal	IESBA Principal
Kam Leung	IESBA Principal
Szilvia Sramko	IESBA Principal
Carla Vijian	IESBA Principal

**APOLOGIES**

**Member Organization**

George Kabwe	International Monetary Fund (IMF)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)

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<sup>1</sup> Views expressed by the PCAOB Representative represent her views and do not necessarily reflect the views of the PCAOB Board or PCAOB Board members or staff.

## **A. Opening Remarks**

Mr. Hansen welcomed all participants to the meeting. He specially welcomed Ms. Dias, IESBA Chair, Ms. Endsley, IESBA Vice Chair, Mr. Sullivan, PIOB Observer, and Mr. Jim Dalkin, IAASB CAG Chair.

Mr. Hansen also welcomed Mr. Stockhof as the new representative for OECD, replacing Ms. Annie Giraudou, and Mr. Michael Fritz from NASBA.

CAG representatives also considered the report-backs on the discussions at the September 2022 CAG sessions regarding the following projects:

- Technology
- Engagement Team-Group Audits Independence and
- Tax Planning and Related Services

There were no comments on the report-backs.

### APPROVAL OF MINUTES

The CAG approved the minutes of the September 2022 public session as presented.

## **B. Strategy and Work Plan (SWP) 2024-2027**

Mr. Kwan introduced the session by providing a report-back on the comments received at the September 2022 CAG meeting and an update on the key IESBA activities relating to the development of the SWP since September 2022. He noted that the IESBA was generally supportive of the first read of the draft consultation paper at the November-December 2022 meeting.

### PROPOSED STRATEGY 2024 – 2027

Mr. Kwan provided an outline of the proposed IESBA vision, strategic drivers, strategic themes and actions as set out in the draft consultation paper.

The CAG was generally supportive of the draft vision and, in addition, provided the following comments:

- Noting the reference to the “sustainability of financial markets” in the draft vision, Mr. Norberg queried if other stakeholders outside the financial markets are covered by the draft vision as they also rely on sustainability information. In this regard, Mr. Thompson suggested that “economies worldwide” would capture stakeholders such as small- and medium-sized enterprises (SMEs).
- Ms. Manabat and Messrs. Greene and Orth queried how the IESBA’s standards could be made available to, and adopted by, those outside the accountancy profession, and what their buy-in would be.

In response, Messrs. Siong and Kwan noted that attaining buy-in is a strategic objective that is being pursued as part of Work Stream 1 of the Sustainability project and that the IESBA will continue to engage with regulators on the issue of enforcement. Ms. Dias further clarified that the IESBA’s decision to develop profession-agnostic standards for sustainability assurance is based on the significant number of practitioners already in the field who are not professional accountants (PAs), and that the regulatory call is for the IESBA to develop standards for sustainability assurance that are profession-agnostic. She added that it is outside the IESBA’s remit to monitor compliance with

the standards and to enforce them. However, the IESBA owes a duty to the public interest to make the standards available to all sustainability assurance practitioners.

- With regards to the phrase "...ethics, including independence, standards...", Mr. Sobel queried if it is necessary to include "independence" as all aspects of ethics are critical. Ms. Riggs and Mr. Hansen suggested that as the IESBA develops profession-agnostic standards, it might be clearer if the phrase is restated as "ethics and independence standards".
- Mr. Sobel observed that the use of the word "sustainability" in the reference to the "sustainability of financial markets and economies worldwide" should not give the perception that it is only limited to sustainability reporting and assurance.
- Mr. Thompson noted that the word "proper" in the reference to "proper functioning of financial markets and economies" may not be well understood in other languages. He suggested using the term "more effective." He also suggested that the reference to public trust be followed by "confidence in" to reinforce the point that public trust will result in public confidence.
- Mr. Orth expressed the view that the proposed vision, whilst sensible, seems ambitious and wondered if the IESBA will have the necessary resources to achieve it. He also agreed with the IESBA's focus on sustainability going forward given that the IESBA has already completed a number of key auditor independence projects in the recent past.

In response, Mr. Kwan clarified that auditor independence will continue to be a strategic focus for the IESBA's future SWP given continuing regulatory concern to strengthen auditor independence.

- Mr. Dalkin observed that the use of technology is crossing over multiple ethics issues and suggested that the IESBA consider including technology in its vision.
- Mr. Hansen suggested removing the phrase "in the production, reporting and assurance" to improve the clarity of the vision.

The CAG was generally supportive of the proposed strategic drivers, strategic themes and actions, in addition, the CAG participants provided the following comments:

- With regards to the strategic driver of "Rapidly Growing Market Demand for Sustainability," Mr. Cela suggested that this driver should also include reference to the societal demand for sustainability information and that he would like to understand the impact on SMEs.
- Mr. Cela also suggested that the proposed strategy should include the concept of proportionality which is important to the application of the Code to SMPs and in the context of SMEs.
- With regards to the strategic driver of "Heightened Stakeholder Expectations for Greater Timeliness," Mr. Sobel noted the importance of timely identification of topics or issues. He also observed the potential challenge of the IESBA demonstrating agility given the need to follow due process.

In response, Mr. Kwan noted that adhering to due process does take time in order to ensure that the standards developed are robust. He added that, in some instances, the appropriate response to addressing ethics issues may not be revisions to the Code but the development of non-authoritative guidance or other resources.

- Given the importance of addressing the expanding role of PAs in business (PAIBs) as a strategic theme, Mr. Norberg suggested that the IESBA consider how to achieve more buy-in in strengthening

ethical expectations in this area, noting that PAs working in organizations are not required to comply with the Code in some jurisdictions. He added that the principles of the Code would also be important for non-PAs. Mr. Hansen supported the focus on PAIBs, observing that fraud often begins on the preparer side or among those with key decision-making authority.

In response, Mr. Kwan noted that the IESBA, amongst other matters, will continue to liaise with IFAC's PAIB Advisory Group.

- Mr. Hansen suggested that, in light of the proposed vision, the proposed strategic themes should more clearly indicate the Board's continuing focus on addressing issues relating to auditor independence.
- Mr. Yurdakul suggested that the proposed vision and strategic themes should emphasize the IESBA's mission to serve the public interest.
- Ms. Meng expressed her support for the IESBA to conduct post-implementation reviews of newly issued standards.
- Mr. Dalkin noted that given the impact of technology and its correlation with independence issues, the proposed strategic themes should more explicitly highlight the Board's focus on technology. Similarly, Ms. Gamboa also asked the Board to consider adding the use of technology as a separate strategic theme, observing the increasing use of artificial intelligence in financial reporting.

In response, Mr. Kwan reaffirmed the IESBA's continuing commitment to monitoring the impact of technology on the profession. He also pointed out that the IESBA had recently completed its Technology project and that some of the topics addressed in that project took into account the findings and recommendations from the Technology Working Group's Phase 2 Report.

#### PROPOSED PROJECTS AND WORK STREAMS

Mr. Kwan outlined the proposed work plan in the draft consultation paper:

- Table A: Ongoing projects and work streams
- Table B: Pre-commitments
- Table C: Proposed new work streams

Mr. Hansen queried if the benchmarking report published in 2022 would be kept evergreen with the standard-setting developments from the IESBA, US Securities and Exchange Commission (SEC) and the PCAOB. Mr. Siong confirmed this.

The CAG was generally supportive of the draft work plan and provided the following comments:

- Mr. Ishiwata expressed the view that the Sustainability project is of the highest priority. He noted that unforeseen issues might require IESBA action and therefore some buffer should be provided in the work plan. He further encouraged the IESBA to maintain flexibility in its work plan and determine its work streams based on priorities.

In response, Mr. Kwan reminded the CAG that the IESBA has committed to be agile in re-prioritizing its work plan as needed.

- Mr. Ishiwata emphasized the importance of PIRs and suggested that the Sustainability and Engagement Teams – Group Audits projects be added to the proposed list of PIRs in the work plan.

In response, Mr. Kwan clarified that it would be too early to conduct these PIRs during the next SWP.

- Ms. Blomme encouraged the IESBA to work closely with the IAASB on the Sustainability project, taking in account that in the European Union (EU), the IESBA's proposed ethics and independence standards for sustainability assurance will become applicable through the IAASB's proposed International Standard on Sustainability assurance (ISSA) 5000.<sup>2</sup> Ms. Blomme also observed an increase in the demand for assurance on reporting in the wider technology and IT sphere. She also indicated that Table C seemed ambitious. Finally, Ms. Blomme expressed support for the work streams in Table A, especially independence considerations with respect to pension funds from an EU perspective.
- Ms. McGeachy-Colby encouraged the IESBA to be cognizant of the pace of change so that jurisdictions can keep up with the adoption and implementation of these changes, particularly for the smaller professional accountancy bodies (PAOs).

#### WAY FORWARD

The IESBA will be briefed on the CAG's feedback at its March 2023 board meeting. The CAG will the significant matters raised on the SWP consultation paper in September 2023.

#### **C. Use of Experts**

Ms. Endsley, Chair of the Experts Task Force, introduced the topic by providing a brief recap of the approved project plan to develop ethics and independence provisions addressing the use of experts, including those external or internal to a PA's firm or employing organization.

Mss. Endsley and Leung then presented the Task Force's preliminary thinking and proposed approach, including:

- Proposed new definitions of the terms "expert," "internal expert," and "expertise" in the glossary to distinguish experts from other individuals used in a multidisciplinary team.
- A principles-based approach ("enhanced ethical framework" in Parts 2 and 3 of the Code) to guide PAs in their determination as to who is an appropriate expert to use and whether to use their work.
- Three options for addressing external experts used in an audit or other assurance engagement, and in particular, noting the public interest in having select independence requirements apply to such experts to safeguard their objectivity.

CAG representatives expressed general support for the preliminary approach. Among other matters, CAG representatives raised the key comments below.

#### ETHICAL EXPECTATIONS WHEN USING THE WORK OF EXPERTS

- Mr. Hansen questioned whether there is a different ethical expectation when PAs use the work of an expert that is engaged by a firm (external expert) versus an expert that is engaged by a client (management's expert). He noted that in the latter case, that expertise is just as valuable as if the auditor had engaged the expert.

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<sup>2</sup> Proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

Mr. Endsley responded that the Task Force is considering the point as industry experts often have skill sets that are difficult to find. Nevertheless, a management's expert is clearly not independent of the client.

- Mr. Sobel expressed support for the preliminary approach and encouraged the Task Force to develop the provisions in a principles-based manner.
- Mr. Dalkin noted that experts could perform work that is very significant and material to the financial statements. He also highlighted that the Task Force's approach should address circumstances where an expert also acts as an assurance provider on a specific subject matter, which might be common when there is a limited number of experts in the field or area regarding such subject matter.
- Mr. Greene noted that an expert can either be internally employed or externally engaged by either a client or a firm. He encouraged the Task Force to consider delineating the approach in such a manner. He also emphasized the importance of a PA performing procedures over the expert's work before determining whether to rely on it.
- Noting that the sustainability ethics and independence provisions would be profession-agnostic, Mr. Ishiwata questioned whether the provisions to address using the work of experts would also be profession-agnostic. In this regard, he noted that the provisions should also address the use of experts by non-PA sustainability assurance providers. He also emphasized the importance of coordinating with the IAASB, noting that proposed ISSA 5000, ISA 620,<sup>3</sup> and ISA 500<sup>4</sup> all refer to the use of experts as well.

Ms. Endsley responded that the Task Force would draft the provisions so that they can readily be used with respect to profession-agnostic sustainability assurance standards.

- Mr. Frtiz questioned if the Task Force had considered developments in some firms that are considering splitting their business so that some experts will move to the advisory part of their business. He wondered how the independence considerations should be addressed in this case.
- Ms. McGeachy-Colby commented that it would be challenging to require experts to apply the provisions. She also questioned how the provisions would apply in smaller jurisdictions where there are a limited number of experts. She was concerned that the proposals could create constraints for SMPs in terms of being able to access the best experts.
- Ms. Mubarak commented that it is challenging for regulators and auditors to assess the competence and capabilities of an expert. For example, an auditor might use an expert because the auditor lacks expertise in a specific subject matter, and therefore the auditor cannot assess the expert's competence or capabilities in such subject matter.
- Mr. Norberg noted that in implementing the proposals, the firm would need to be the one requiring the external expert's compliance with the provisions and therefore needing to assess such compliance. From a market perspective, he wondered why the external expert should go directly to the auditor vs. going to the client to avoid all the independence requirements. Nevertheless, he noted that the market impact should not influence the development of the independence provisions.

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<sup>3</sup> International Standard on Auditing (ISA) 620, *Using the Work of an Auditor's Expert*

<sup>4</sup> ISA 500, *Audit Evidence*

#### POSSIBLE APPROACHES TO ASSESSING THE INDEPENDENCE OF EXTERNAL EXPERTS

- Ms. Blomme expressed support for option C due to the scarcity of some types of experts. She noted that an expert needs to be assessed also with respect to the expert's work so that the engagement can be signed off. For example, consideration should be given to whether the expert's work is free of bias. She also commented that it cannot practically be expected that the external expert goes through the same independence provisions as a PA.
- Ms. Meng expressed support for option C but noted that the expert's judgment involves an element of subjectivity. In this regard, she encouraged additional guidance to be developed so that the "significant influence test" can be applied consistently. She also noted that the approach should not be limited to addressing experts used in sustainability assurance.
- Mr. Yurdakul expressed support for option B, noting that option A has practical limitations and option C raises questions such as how the level of influence would be measured, and whether it is the significance of the outcome of the expert's work to the financial statements or the materiality of the expert's service.
- Mr. Ishiwata and Ms. Gamboa expressed support for option C and encouraged additional guidance to be developed so that the application of the "significant influence test" can be consistent.
- Mr. Norberg expressed support for option C as it is more balanced.
- Mr. Thomson expressed support for option C. However, he questioned what the likelihood might be that the expert's work would significantly influence the outcome of the engagement.
- Ms. Manabat expressed support for option C, noting that it is rooted in the exercise of professional judgment.
- Mr. Hansen considered the scenario where an engagement partner essentially becomes a general contractor due to the use of multiple experts. He emphasized the importance of the engagement partner taking ultimate responsibility for using an expert's work. He also suggested that the Task Force also considers the approach for internal experts versus external experts, including how they were hired, and whether they should be independent versus objective. Finally, he pointed out that the PCAOB had issued updated guidance in relation to the use of experts.

#### PIOB OBSERVERS' REMARKS

- Mr. Sullivan expressed the view that the issue is almost always material when an expert is used. He also questioned the statement that external experts are not under the direction and supervision of the engagement partner. In his view, whenever an expert is used, there certainly needs to be direction and supervision. He also encouraged the Task Force to go through the Public Interest Framework for each approach to determine which approach would be most responsive to the public interest.

#### WAY FORWARD

Ms. Endsley noted that the Task Force would consider all the comments from CAG representatives in conjunction with the feedback from the discussions on the project at the IESBA and also at the March and April 2023 global sustainability roundtables, as the Task Force further develops its thinking and proposals. The CAG will consider the key issues relating to a first-read draft of the provisions in September 2023.

#### **D. Emerging Issues and Outreach Committee**

Ms. Borgerth, EIOC Chair, updated the CAG on the activities of the EIOC. She then presented the following topics.

##### FTX FAILURE

Ms. Borgerth briefed the representatives on recent significant developments relating to the FTX collapse. She highlighted some of the potential ethical issues concerning PAs that might have arisen in this case based on the alleged circumstances, as reported in the press.

CAG representatives broadly agreed that the apparent ethical issues have linkages to the Code and raised the following comments:

- Mr. Dalkin noted that in such a case, there is a potential ethics issue in that the practitioner is performing select procedures that would result in a specific outcome whereas the client's business might in fact be collapsing. The public sees the practitioner's report from the performance of these procedures and draws greater assurance than warranted. Accordingly, he wondered whether questions should be raised about agreed-upon procedures engagements and the potential ethical issues in relation to the performance of such engagements.

Mr. Hansen agreed with Mr. Dalkin's observations and noted that previously, such reports were not freely available to the public due to the private nature of these engagements. Given the nature of agreed-upon procedures engagements, he was of the view that restrictions should be placed on the distribution of the reports for public reliance.

Ms. Borgerth agreed with Mr. Dalkin, noting that the IESBA does not regulate crypto currency. However, one of the highlighted matters relates to the perceived lack of professional competence and due care and professional skepticism. While the case is under investigation, it would appear that there might have been potential breaches of the fundamental principles.

- Mr. Sullivan noted that if it was a "proof of reserves" report, the ethical issue is about whether the use of the word "proof" was misleading, and therefore, whether the report might have been potentially misleading.
- Ms. Manabat shared that the case is complicated, and while there is a need to comply with the standards, enforcement is another matter. She noted that FTX was effectively a public interest entity (PIE) but it was unclear who regulated it. She also noted that it would be regrettable if no action is address the consequences of such failure as it is an emerging issue of significant importance. Ms. Manabat also cautioned that this case would require a deeper dive into the circumstances in terms of the company having such agreed-upon procedures performed, whether there was mal-intention and negligence by the company, whether there was a lack of due care by the auditor, and the roles of the relevant players, including the regulators.
- Mr. Harrison noted that this is a complicated topic. There is a regulatory aspect as it involved an unregulated industry from the beginning. He noted that in the US, there are peer reviews and it was unclear if those peer reviews selected crypto audits and whether they might have issued warning signals. He added that as FTX's industry is unregulated, the audits would also be unregulated.
- Mr. Harrison also noted that the other issue the public should be made aware of is the lack of regulation or oversight over such industries, which means there is a need for consumer education and greater skepticism concerning any assurance reports. He added that the size of the FTX

collapse suggests systemic fragility in that some parts of the system of regulatory supervision and oversight appear not to have been working properly. In this regard, he noted that the FTX collapse appears to have more to do with regulation (or the lack thereof) than the Code.

Ms. Borgerth agreed with Mr. Harrison's observation that FTX operated in an unregulated industry, and this makes it even more important to reflect on the ethical issues arising in this case.

- Ms. Blomme noted that this case had not received as much attention in Europe as in the United States. However, she noted that the "proof of reserves" report was based on the IAASB's standard for agreed-upon procedures engagements, ISRS 4400, which already specifies a restriction on the distribution of agreed-upon procedures reports in the public domain. She added that these types of reports normally do not provide much assurance over the subject matter, and it is not something that is commonly practiced in Europe.

#### CHATGPT

Ms. Borgerth proceeded with a presentation on the topic of ChatGPT. The CAG noted the exponential growth of artificial intelligence (AI) tools such as ChatGPT worldwide to perform a variety of tasks. CAG representatives shared reflections regarding the use of generative AI, including the following:

- Mr. Dalkin noted that he was in a meeting where he was educated about the widespread use of generative AI by technology companies to provide assistance to auditors to perform audit procedures. He shared that such technology could provide much cost savings to audit firms in the performance of audit procedures, although it could raise a number of questions, including whether the tool could be given to the client to use and therefore obviating the need for the audit, and whether ChatGPT could act as an expert. He wondered whether the solution would be to hire an AI specialist.

Ms. Borgerth agreed with Mr. Dalkin's observation that much research is required to understand the issues surrounding the use of generative AI technologies. However, she was of the view that it should be from a positive angle of encouragement for the use of such technology in aiding audit work.

- Mr. Cela echoed his support on the importance of addressing ethical concerns with regards to the use of AI technology. While there is great benefit to be gained from the use of such technology, i.e., useful and cost-saving for routine work, it could also create a privacy issue over the information shared as well as potentially mislead the users. The main concern surrounds the reliability of the information produced as in most cases the answers are pre-determined without much thought given to their validity. He encouraged a focus on professional competence to equip the future workforce with the knowledge and skills needed to appropriately use the technology.
- Ms. Manabat shared her observations regarding the use of computer-aided technology to perform audit procedures. She remarked that there is currently a lack of attention from the standard-setting point of view when it comes to addressing matters relating to generative AI technologies.
- Mr. Sarmiento Pavas noted that generative AI is one of the key developments for the accountancy profession, emphasizing the importance of the profession addressing this topic upfront to continue to earn the public's trust in its work. He encouraged the IESBA to remain close to the issue of generative AI.
- Mr. Siong noted that the role of the accountant and the auditor will be critical in terms of exercising their professional judgment. He noted developments where medical doctors are using generative AI

for purposes of cancer diagnoses, adding that there are questions regarding PAs' responsibilities over the use of such technology.

- Ms. Endsley communicated that the matter of ChatGPT was raised during the discussions of the Experts Task Force. She noted that the Experts Task Force had excluded generative AI from the definition of an expert as the Task Force considers that AI is a tool.
- Mr. Greene wondered whether, from an ethics and independence perspective, auditors would be subordinating their judgment to ChatGPT.

#### FRAUD

The CAG also received a brief update on a May 2022 Position Paper issued by the Netherlands Authority for the Financial Markets (AFM) on audit firms' approach to fraud and fraud risks at audited entities. The IESBA was also briefed on the IAASB's project to revise ISA 240.<sup>5</sup>

- Mr. Sullivan thanks the EIOC for sharing the report. He was of the view that there is no current gap in the Code. He stressed that this is a topic of public interest that needs to be discussed all the time, as few auditors come across fraud in their careers. In addition, the pressure of reporting deadlines may create a disincentive for auditors to address potential fraud. He emphasized that the auditor's mindset is key when it comes to fraud. He added that it is without a doubt an issue of great importance, notably also when it comes to dealing with management in addressing fraud matters.
- Mr. Hansen noted the public interest importance of addressing the topic of fraud.

Ms. Borgerth thanked the CAG for the robust discussion, noting that the EIOC will further reflect on the CAG's input on the various topics discussed.

#### E. Sustainability Work Stream 2

Ms. Martin, Chair of the Sustainability Work Stream 2 (WS2), commenced the session by providing a brief overview of the project proposal on [sustainability](#) approved by the IESBA in December 2022, including the objectives to develop ethics standards for sustainability reporting as well as profession-agnostic ethics and independence standards for sustainability assurance. In response to a query raised by Mr. Sullivan, Ms. Martin clarified that WS2 addresses the ethics component relating to both sustainability reporting and assurance.

#### GLOBAL ROUNDTABLES

Ms. Martin informed the CAG Representatives about the IESBA's global sustainability roundtables to be held in Paris, Sydney, Singapore, and New York between late March and early April 2023. She noted that the aim of these roundtables is to seek views from a broad range of stakeholders on key matters, including the presentation of profession-agnostic standards for sustainability assurance and the potential development of profession-agnostic ethics standards for sustainability reporting.

Amongst other matters, the following comments were raised by CAG Representatives:

- Dr. Lawal Danbatta noted that there is ongoing global coordination on sustainability topics and that he has been involved in stakeholder meetings with global regulators and standard setters, including the Financial Stability Board (FSB), the Basel Committee on Banking Supervision, IOSCO, and the IAASB. In his view, such global coordination is crucial to clarify what PAs are expected to report on

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<sup>5</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

and to minimize the issue of regulatory and standards fragmentation. In response, Ms. Martin noted the importance of global coordination but clarified that the IESBA's objective is to develop framework-neutral standards that are not dependent on a particular reporting framework.

- Mr. Ishiwata agreed with the importance of outreach and noted that the global roundtables presented excellent opportunities to gather input from different stakeholders from different jurisdictions. He also suggested that consideration be given to holding future roundtables jointly with the IAASB and the International Sustainability Standards Board (ISSB).

#### COORDINATION WITH IAASB – DEFINITION OF “SUSTAINABILITY INFORMATION”

Ms. Martin provided an update on the coordination between the IESBA and the IAASB to address matters of mutual interest regarding their sustainability projects, such as key definitions. In particular, she noted that the two Boards may have different proposed approaches to the definition of “sustainability information” as the IESBA's approach needs to be broader to address both sustainability reporting and assurance. She stressed the importance of finding a way to bridge these approaches and achieve alignment.

Ms. Martin further explained the WS2's working draft definition of “sustainability information”, which has taken into account relevant terms being developed by the ISSB and the European Financial Reporting Advisory Group (EFRAG) Sustainability Reporting Board. In response to a query raised by Mr. Hansen, Ms. Martin explained the difference between the concepts of “single materiality” and “double materiality” relating to “sustainability information.”

Amongst other matters, the following comments were raised by CAG Representatives:

- Mr. Norberg supported WS2's proposed approach to developing a broad definition of “sustainability information” since sustainability reports cater to various groups of stakeholders. In this regard, he observed that the draft definition used by the ISSB focuses on enterprise value and is, therefore, geared towards users from capital markets. He took the view that the second paragraph of the working draft seemed to suggest that the first paragraph is not sufficiently broad. He suggested either removing the paragraph or placing it as application material. He also queried if the use of word “relevant” in the working draft would adequately cover voluntary sustainability reporting.

In response, Ms. Martin noted that the definition is intended to cover reporting required by law and on a voluntary basis.

- Mr. Sobel considered that the working draft seemed to focus on the impact on the organization (i.e., it seemed to favor single materiality), except for the reference to “impacts.” In that regard, he questioned if it was clear enough that “impacts” covers the organization's impacts on society.
- Ms. Blomme stressed the importance of coordination with the IAASB and queried why the two Boards are taking different approaches to developing the draft definitions. She further noted that jurisdictions are likely to develop local definitions that will be included in laws and regulations and used in the local reporting framework. She thus questioned if there was a need for another definition. In this regard, Ms. Blomme pointed out that the proposed IAASB definition may leave room for a national definition. She further observed that it was unclear how the reference to “policies, performance, plans and goals” relates to the environmental, social and governance (ESG) factors in the working definition.

Further to Ms. Blomme's feedback, Mr. Orth cautioned about the risk of developing different definitions for the same terms. He suggested that there should be a common understanding of terms such as “sustainability matters” which is used by the EFRAG.

In response, Ms. Martin acknowledged the challenges of reaching a common global definition and clarified that the IESBA's objective is to develop standards that are applicable regardless of what information is reported or is subject to assurance. She further recognized that, whilst the draft proposed definition is intended to be broad, jurisdictions will likely issue their own definitions, depending on the specific sustainability challenges they are intending to address.

- Mr. Thompson agreed that the second paragraph of the working draft may not be necessary because the first paragraph is sufficiently broad. He considered that the reference to "impacts" needs to be more explicit and mention how the organization and its activities are impacting the environment and society, up and down the value chain. He also agreed with WS2's approach of having a broad definition, recognizing that the IAASB and the IESBA standards are written for different purposes.
- Mr. Yurdakul agreed with having a broad definition but suggested that it should be more consistent with the one used by the ISSB as those standards will be adopted by many jurisdictions.

In response, Ms. Martin noted that the ISSB is working on the basis of the financial impact of sustainability considerations, which is not the approach adopted by the European Union, and, hence, the WS2 reached the view not to base the working draft on the ISSB's definition.

- Dr. Lawal Danbatta expressed the view that the second paragraph of the working draft is important as it provides flexibility which is important to adoption and implementation. He also agreed with the importance of coordination with IAASB.

#### ETHICS STANDARDS FOR SUSTAINABILITY REPORTING

Ms. Martin provided an overview of the IESBA's consideration on whether to develop ethics standards for sustainability reporting in a profession-agnostic way or for PAs only, including an overview of the pros and cons for both options.

Ms. Dias noted that, whilst the ultimate test is what is required in the public interest, there are other factors to consider, such as the time and resource capacity to conduct the necessary research. She further noted that this question is different from the IESBA's approach to developing profession-agnostic standards for sustainability assurance and requires consideration of other matters, such as corporate governance and regulatory implications. The IESBA will therefore continue to engage with stakeholders about this matter.

Amongst other matters, the following comments were raised by CAG Representatives:

- Dr. Lawal Danbatta observed that sustainability reporting requirements are addressed differently by jurisdictions, noting that some require the involvement of management, whilst others require that of the board of directors. Therefore, he considered that developing standards for PAs only (i.e., option A) is more aligned with the IESBA's mandate and consistent with stakeholder expectations, as a broader approach would risk overlapping or being inconsistent with other standards or regulations. He also suggested that the IESBA could instead consider developing general guidelines applicable to those who are not PAs.
- Mr. Dalkin noted that in the United States, there are no legal requirements for non-PAs to follow ethics standards and, therefore, he recognized that it would be difficult to expect those who are not PAs to apply these ethics standards voluntarily in the United States.
- Ms. Blomme and Mr. Dalkin questioned how the standards would be different if they were to cover all preparers.

In response, Ms. Martin noted that a complete profession-agnostic Code is likely to be a big task, adding she was not convinced there would be regulatory support at this point for the IESBA to develop standards applicable to all preparers of sustainability information.

- Mr. Fritz queried how someone other than a PA can provide assurance in the United States on information that is in the financial statements.

In response, Ms. Martin noted that not all sustainability information is part of the financial statements and that research on the sustainability assurance landscape shows that those who are not PAs are already providing assurance on sustainability information in a number of jurisdictions. She also pointed out that who can provide sustainability assurance services is a matter for jurisdictions to determine.

- Mr. Ishiwata reiterated the IOSCO regulatory call for profession-agnostic standards for sustainability assurance.

#### PIOB OBSERVERS' REMARKS

Mr. Sullivan wondered to what extent the sustainability information is prepared by those who are not PAs and if it is only a small percentage, he queried if it is an efficient use of time to focus on this group. Both Ms. Blomme and Mr. Sullivan suggested that conducting additional research on this question will help inform the IESBA's decision. However, they were sensitive to the time pressures that the Board is under in developing these new standards.

#### WAY FORWARD

Ms. Martin thanked the CAG Representatives for their input and informed the CAG that the IESBA will consider the CAG's feedback at its March 2023 meeting and will then have an opportunity to consider stakeholders' feedback from the global roundtables at its June 2023 meeting.

#### **F. Sustainability Work Stream 1**

Mr. Babington introduced the topic, recapping the IESBA's decisions to date on the development of profession-agnostic ethics and independence standards for use by all sustainability assurance practitioners. He briefed the CAG on the IESBA's plan to hold four global sustainability roundtables in Paris, Sydney, Singapore and New York in late March and early April.

Mr. Babington also briefed the CAG on the IESBA's discussions regarding the possible ways to present the profession-agnostic ethics and independence standards for sustainability assurance. Among other matters, he outlined the three options under consideration, and their main advantages and disadvantages:

- Option 1: An integrated approach that would encompass all the relevant ethics and independence sustainability provisions within the extant Code, extending the applicability of those provisions to sustainability assurance practitioners other than PAs.
- Option 2: A new Part 5 that would separately contain the provisions relevant to sustainability assurance engagements but housed within the Code.
- Option 3: A standalone handbook of ethics and independence standards for sustainability assurance engagements.

## PRESENTATION OPTIONS FOR PROFESSION-AGNOSTIC STANDARDS FOR SUSTAINABILITY ASSURANCE

CAG Representatives expressed support for the IESBA's development of profession-agnostic ethics and independence standards for sustainability assurance. Among other matters, the following were raised:

- Mr. Dalkin wondered about the incremental ethics and independence standards for sustainability assurance compared with the standards applicable to audit engagements. He noted that there would be significant duplication if the standards for sustainability assurance and those for audit were kept in two separate volumes if they would be largely the same.

Mr. Babington acknowledged that there would be some duplication compared with an integrated approach. However, he noted that there are areas where sustainability-specific material would be needed, for example, accounting and bookkeeping services would not apply in an independence context for sustainability assurance. In addition, it would be necessary to consider the different ways in which sustainability information could be produced.

- Ms. Riggs wondered whether another option could be to take an “upgraded Part 4B” approach instead of using Part 4A as a base. She suggested that Part 4A might be better preserved for audits and reviews of financial statements, minimizing potential distractions from Part 4A's focus on financial statements. The advantages of this option would be to leave Part 4A alone; deliver the profession-agnostic solution many stakeholders are calling for, especially with respect to non-PAs; and avoid having to maintain two separate sets of standards. She suggested that this could be an option for consideration in the context of the upcoming roundtables.

Mr. Babington responded that stakeholder feedback from outreach conducted to date indicates that the ethics and independence standards for sustainability assurance should be at the same level as for audits for sustainability assurance engagements of heightened public interest. This was also consistent with regulatory developments in some major jurisdictions, such as the Corporate Sustainability Reporting Directive (CSRD) in the EU. He added that a Part 4B approach would represent a fundamental change of direction but noted that the Task Force would consider it further.

- Regarding the reference to the new ethics and independence standards being framework-neutral, Ms. Blomme wondered how this would relate to the proposed International Standard on Sustainability Assurance (ISSA) 5000 being developed by the International Auditing and Assurance Standards Board (IAASB), given that ISSA 5000 will be closely linked to the Code. She added that if the EU adopts ISSA 5000, she would not expect the sustainability-related ethics and independence to operate except via ISSA 5000.

Mr. Babington responded that the IESBA is working in close coordination with the IAASB regarding the development of ISSA 5000. He added that the framework-neutral approach recognizes that there are other reporting frameworks that can drive sustainability information besides the sustainability reporting standards being developed by the International Sustainability Standards Board (ISSB). Mr. Siong added that framework neutrality also relates to the operability of the new ethics and independence standards with other assurance frameworks, such as those of the International Organization for Standardization (ISO) and the Institute of Electrical and Electronics Engineers (IEEE).

- Ms. Blomme acknowledged that all three options have pros and cons. While she was not yet able to express a preference, she noted that several factors would need to be considered, including the objectives, the structure of the standards, the audience, etc. She added that the longer term goal would be integrated reporting and integrated assurance on corporate reporting.

Mr. Babington acknowledged the challenge of coalescing around one option but noted that the IESBA would use the upcoming roundtables to gather further input.

- Mr. Yurdakul expressed a preference for Option 1 but suggested a restructuring of the Code's building blocks, with Part 1 applying to all PAs and sustainability assurance practitioners, Part 2 to PAs in business, Part 3 to PAs in public practice, Part 4 to both PA and non-PA sustainability assurance providers, and having Part 5A for independence for audits and reviews, Part 5B for sustainability assurance engagements, and Part 5C for other assurance engagements. He was of the view that this approach would provide more flexibility.
- Ms. Meng indicated that for auditors, she supported integrating the sustainability-related standards into the existing Code. For non-PAs, she was of the view that it would be easier to have a standalone or separate section with more targeted and separate provisions. In addition, as the new provisions would be also for non-PAs, she felt it important that those provisions be easy to understand and use.
- Referring to the September 2022 public statement issued by IOSCO regarding the development of global, profession-agnostic ethics and assurance standards for sustainability assurance, Mr. Ishiwata emphasized the importance of timely delivery of those standards. Regarding the presentation options, he indicated support for Options 2 or 3. Referring to the timeline, he also advised retaining flexibility to develop the standards step by step based on the needs of stakeholders.

On the issue of timing, Mr. Babington noted that it is a matter of prioritization as to what needs to be delivered now vs what can be delivered later.

- Mr. Thompson complimented Mr. Babington on a balanced presentation of the options and their pros and cons. Acknowledging the challenge of choosing an option, he advised the IESBA to be guided by the public interest. He also advised pragmatism as the IESBA should not take too long to settle on an option given the time constraints. Nevertheless, he expressed an initial preference for Option 2, subject to the roundtables.
- Mr. Norberg felt that the key for non-PAs is to make the standards as digestible as possible. He agreed with Mr. Thompson regarding the need for pragmatism and, in particular, the need to focus on the usability of the standards by non-PAs.

Mr. Babington agreed with the comments about pragmatism, noting that it should ultimately be what would best serve the public interest.

- Ms. Manabat commented that the expectations for non-PAs might be different from those for PAs. Given the time and resource constraints, she was of the view that it would have been ideal to develop the standards for PAs and non-PAs in parallel but that it might be more conservative to develop them sequentially.

Mr. Babington responded that the challenge is how to make the new standards accessible to non-PAs, in addition to delivering on the regulatory challenge of equivalence to the standards for audit.

- Mr. Sobel expressed support for Option 2, noting that this option has many advantages and that he could live with the disadvantages. He acknowledged that there would be much to learn from the roundtables.

Mr. Babington responded that he looked forward to the feedback the IESBA would gather from the roundtables on this matter.

- Mr. Dalkin agreed with Mr. Norberg. He noted that in relation to assurance standards in the US governmental sector, two thirds of those standards can be used by PAs and one third by any assurance practitioner. In that context, he observed that one of the most significant challenges is that most of the assurance standards written for PAs are not really understandable by non-PAs such as engineers. Accordingly, he was of the view that Option 2 might be a way to approach the presentation issue where the standards could be drafted to be more accessible by non-PAs.

Mr. Babington responded that there is an attraction to that option. However, it would be necessary to address the challenge of how to avoid a different articulation of the provisions for non-PAs as this could lead to issues like regulatory arbitrage. Accordingly, careful drafting of the standards would be necessary.

- Ms. Gamboa expressed support for Option 2. She noted her concurrence with the advantages presented, such as greater scalability for the future.
- Dr. Lawal Danbatta expressed support for Option 2. However, he advised going to the roundtables with well-laid-out options and knowing who the roundtable participants are, so that the outcome from the roundtables on this matter is credible.

Mr. Babington concurred and acknowledged the IESBA staff's support in turning the ideas into the options clearly presented.

- Mr. Hansen expressed support for an integrated approach, whether under Option 1 or Option 2, with a preference for Option 1. However, he acknowledged that the way forward would depend on the roundtable discussions.
- Ms. Dias noted the IESBA has made a public commitment regarding the timeline for this project, with a deadline of December 2024 for approval of the final standards. With respect to framework-neutral standards, she pointed out that the IESBA's standards will complement, and not compete with, the ISSB's standards. In relation to integrated reporting, she emphasized that the IESBA is fully aware that this is the ultimate goal for corporate reporting. She emphasized that all three presentation options would support integrated reporting.
- Ms. Riggs concurred that the issue of integrated reporting is important. She added that in her suggested alternative option of an enhanced Part 4B, the longer term evolution would be that Part 4A would pick up sustainability information as it gets integrated into the financial statements.

#### INDEPENDENCE CONSIDERATIONS

Mr. Babington briefly outlined the landscape of sustainability assurance providers from data gathered to date. He also briefed the CAG on a number of independence considerations with respect to sustainability assurance engagements.

Among other matters, the following were raised:

- Dr. Lawal Danbatta expressed the view that in the context of greenwashing, there should be stricter requirements for non-PAs under the standards being developed by the IESBA compared with PAs. This is because there may be fewer safeguards against the non-PAs influencing the preparation of the sustainability information given that sustainability reporting is much wider in scope than financial reporting. Further, non-PAs may not be affiliated with any professional body.
- Mr. Norberg agreed that consideration should be given to both interests and relationships of the sustainability assurance provider with the entity. He acknowledged that a key issue is understanding

the types of non-assurance services non-PAs are providing in relation to sustainability. He added that such data will be important to ensure the relevance of the standards.

#### PIOB OBSERVER'S COMMENTS

Mr. Sullivan complimented the Task Force on all its efforts to date. He indicated that he looked forward to the feedback from the roundtables and hoped the IESBA would obtain the clarity needed to make decisions on the strategic issues.

Ms. Dias noted that the IESBA is not working in a vacuum as some major jurisdictions such as the EU and the US already welcome non-PAs as sustainability assurance providers. She added that market data indicates that more than half of the sustainability assurance market is in fact already served by non-PAs.

#### **G. Closing Remarks**

Mr. Hansen thanked the CAG participants for their contributions and closed the meeting.