

April 26, 2024

Ms. Gabriela Figueiredo Dias  
Chair  
International Ethics Standards Board for Accountants

***Re: Exposure Draft “Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting”***

Dear Ms. Dias,

The Sustainability Reporting Committee (SRC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft “Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting” (hereinafter referred to as the “ED”) published by the International Ethics Standards Board for Accountants (IESBA) on January 29, 2024.

The SAAJ is a not-for-profit organization for professionals in the areas of investment and finance, offering education and certification programs in these fields. Its certified member analysts (holding the CMA designation) number around 29,000.

The SRC is a standing committee of the SAAJ established in March 2021. It is composed of ten members including equity and credit analysts, portfolio managers, public accountants, and academics.

On the same date, we also submitted a comment letter on the Exposure Draft “Using the Work of an External Expert” published by the IESBA on January 29, 2024

**General Comments**

We welcome that the IESBA has published the ED. Sustainability information is becoming increasingly important for analysts and investors in forecasting future cash flows and performance. Representing the interests of users of sustainability information, we have been advocating the urgent need for high quality, consistent, and comparable global sustainability disclosure standards.

Therefore, we welcomed the publication by the International Sustainability Standards Board (ISSB) of its inaugural IFRS Sustainability Disclosure Standards (ISSB Standards) in June 2023. We also welcomed the IAASB's Exposure Draft on International Sustainability Assurance Standards 5000 (ED-5000), which will provide a global baseline for ensuring the reliability of sustainability information. We submitted our comment letter on ED-5000, basically agreeing with the proposals.

With the publication of the ED, there will be a complete set of disclosure standards, assurance standards and ethics and independence standards for sustainability information. We hope that these three standards will work together to make sustainability reporting effective in the financial and capital markets.

While we basically agree with the main proposals of the ED, we provide below our general comments and suggestions for improvement from the perspective of analysts and investors as users.

***Main Objectives of the IESSA***

1. Do you agree that the proposals in Chapter 1 of the ED are:
  - (a) Equivalent to the ethics and independence standards for audit engagements in the extant Code? *[See paragraphs 19 and 20 of this document]*
  - (b) Profession-agnostic and framework-neutral? *[See paragraphs 21 and 22 of this document]*
2. Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics? *[See paragraph 23 of this document]*

We basically agree with the four main objectives of the IESSA: Equivalent to Audits, Profession-Agnostic Standards, Framework-Neutral Standards, and Public Interest Framework.

Sustainability information faces the same challenges as financial information, including managing conflicts of interest. Therefore, we believe that the objective of equivalent to audit, which requires the same level of ethics and independence standards as those for financial statement auditing, is particularly important. This objective will also help ensure connectivity between financial and sustainability information, which is emphasized in the ISSB Standards and others.

Given that sustainability assurance is already performed not only by professional accountants (PAs), but also by a variety of practitioners who are not professional accountants (non-PAs), the objective of profession-agnostic standards, which aims to apply to all sustainability assurance practitioners, is also important.

Multiple sustainability disclosure standards are expected to coexist globally, including the ISSB Standards, jurisdictional standards based on the ISSB Standards, European standards, and U.S. standards. While we expect standard setters and regulators in each jurisdiction to improve the interoperability of these standards, we also believe that the objective of framework-neutral standards is important given this coexistence.

However, for the IESSA to function as a global baseline ethics and independence standard, it will need to be adopted in most jurisdictions. In addition, to achieve the objective of profession-agnostic standards, each jurisdiction will need to establish an infrastructure, including qualifications and continuing education, to raise the awareness and level of assurance practitioners other than PAs. Therefore, we encourage the IESBA, in cooperation with the IAASB, to work on this matter with the International Organization of Securities Commissions (IOSCO) and the regulators in each jurisdiction.

***Scope of Proposed IESSA in Part 5***

4. The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5? *[See paragraphs 30 to 36 of this document]*
5. The IESBA is proposing that the International Independence Standards in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a? *[See paragraphs 38 to 43 of this document]*

We basically agree with the scope of the proposed IESSA as follows:

- (1) Scope of the ethics standards
  - All sustainability assurance engagements
  - Any other services that the practitioner provides to the same sustainability assurance client
- (2) Scope of the independence standards
  - Assurance engagements on sustainability information that meets the following criteria:
    - (a) Reported in accordance with a general purpose framework; and

- (b) Required to be provided in accordance with laws and regulation; or publicly disclosed to support decision-making by investors or other stakeholders

Under the objective of profession-agnostic standards, we believe that it is a balanced approach that the scope of the ethics standards includes not only all sustainability assurance engagements, but also any other services that the practitioner provides to the same sustainability assurance client.

While we believe that the scope of the independence standards is also appropriate, we have the following suggestions for improvement from the user's perspective:

- Regarding the criterion of sustainability information that is “required to be provided in accordance with laws and regulation; or publicly disclosed to support decision-making by investors or other stakeholders”, we encourage the IESBA to clarify the definition of “to support decision-making by other stakeholders”. There is already a common understanding of “to support decision-making by investors” in financial information. On the other hand, since “to support decision-making by other stakeholders” used in sustainability information is a relatively new concept, we believe that a clarified definition is necessary to promote a common understanding.
- To reduce diversity in practice among sustainability assurance practitioners and to improve the understandability of users, we encourage the IESBA to provide an explanatory memorandum with examples of sustainability information that meets certain criteria. For example, integrated reports that are not intended for a limited audience and can be widely used by the public should be subject to the independence standards.

**NOCLAR**

7. Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other? *[See paragraphs 56 to 67 of this document]*

We basically agree with the proposal to add a requirement for the communication of (actual or suspected) NOCLAR between the auditor and the sustainability assurance practitioner for assurance engagements on sustainability information that meets certain criteria and to waive confidentiality in such cases.

Under the objective of profession-agnostic standards, it is important to add the requirement for the communication of NOCLAR to maintain high quality assurance and to meet the need for connectivity

between financial and sustainability information. As users, we believe that, in addition to responding to NOCLAR, additional requirements are needed to prevent material inconsistencies between the two sets of information. In this regard, paragraph 65 of the Explanatory Memorandum indicates that the communication in a broader sense other than the context of NOCLAR is a matter for the relevant assurance standards to determine and that the IESBA will coordinate with the IAASB on this matter as needed. We hope the IESBA's coordination with the IAASB, such as encouraging the IAASB to provide additional requirements on this matter.

However, we have the following suggestions for improvement:

- To respond more effectively to NOCLAR, we encourage the IESBA to require “shall communicate NOCLAR to each other” rather than “shall consider communicating NOCLAR to each other”. Under the provision “shall consider communicating NOCLAR to each other”, the decision whether to communicate NOCLAR depends on the judgment of the assurance practitioner and the auditor. Therefore, there is concern, in particular, as to whether the assurance practitioner who is not a PA can make the appropriate judgment. We believe that “shall communicate” would strengthen the checks and balances on the preparer. Even if the standard is finalized with “shall consider communicating”, we encourage the IESBA to consider measures to enhance the effectiveness of responding to NOCLAR, such as providing guidance to auditors and assurance practitioners in making appropriate judgments. The same applies to the requirement for the communication among sustainability assurance practitioners as stated in the third bullet point.
- Also, to respond more effectively to NOCLAR, we encourage the IESBA to provide guidance on the communication between the sustainability assurance practitioner and the auditor and management or those charged with governance (TCWG). Firms with various backgrounds other than audit firms are likely to become sustainability assurance practitioners under the objective of profession-agnostic standards. We believe that there is a need for easy-to-understand guidance that considers assurance practitioners who are not PAs and do not have experience in financial statement audits. In addition, there would be many cases where the sustainability assurance practitioner and the auditor belong to different firms, given the current situation where firms other than audit firms widely provide sustainability assurance engagements. However, as communication is likely to be more difficult when they belong to different firms than when they belong to the same firm, we encourage the IESBA to provide guidance to clarify how to communicate to each other when belonging to different firms.
- In the case of sustainability disclosure standards that require an entity to disclose information on all material sustainability-related risks and opportunities, such as the ISSB Standards, a

single firm would be the sustainability assurance practitioner, using the work of external experts. In Japan, sustainability disclosure standards are to be developed and legislated based on the ISSB Standards. In this situation, it may be sufficient to add provisions on the communication between the sustainability assurance practitioner and the auditor. However, in the transition period until the practice on statutory sustainability disclosures is well established, there may be multiple sustainability assurance practitioners in voluntary and other reports. As users who emphasize connectivity between financial and sustainability information, we prefer that a single firm be the assurance practitioner, even for voluntary and other reports. That said, given the objective of framework-neutral standards and the emphasis on connectivity between topics of sustainability information, we encourage the IESBA to add a requirement for the communication among sustainability assurance practitioners, with due consideration to laws and regulations and security requirements on information in each jurisdiction.

- To strengthen the response to “greenwashing”, we encourage the IESBA to provide guidance and an explanatory memorandum to clarify that NOCLAR includes material misstatements in statutory disclosures as non-compliance with laws and regulations. The laws and regulations subject to the NOCLAR provisions are indicated in paragraph 5360.3 as “(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts, impacts and disclosures in the client’s financial statements or sustainability information” and paragraph 5360.5 A2 provides examples of laws and regulations dealing with “securities markets and trading”. Based on these provisions, we understand that material misstatements in statutory disclosures that could constitute non-compliance under laws and regulations dealing with securities markets or trading are included in NOCLAR. However, we do not believe that this understanding is readily apparent to many stakeholders. This clarification that NOCLAR includes not only non-compliance with laws and regulations dealing with environment and human rights, but also non-compliance with laws and regulations due to misstatements in statutory disclosures, would enable assurance practitioners to take further actions to prevent misstatements or mitigate the effects of misstatements.

***Group Sustainability Assurance Engagements***

10. The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements. *[See paragraphs 86 to 92 of this document]*
- (a) Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group

sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?

- (b) If you support addressing group sustainability assurance engagements in the IIS in Part 5:
- (i) Do you support that the independence provisions applicable to group sustainability assurance engagements be at the same level, and achieve the same objectives, as those applicable to a group audit engagement (see Section 5405)?
  - (ii) Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement? [See paragraph 88 of this document]
  - (iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, “group sustainability assurance engagement” and “component”)?

***Using the Work of Another Practitioner***

11. Section 5406 addresses the independence considerations applicable when the sustainability assurance practitioner plans to use the work of another practitioner who is not under the former’s direction, supervision and review but who carries out assurance work at a sustainability assurance client. Do you agree with the proposed independence provisions set out in Section 5406? [See paragraphs 93 to 101 of this document]

We basically agree with the following proposal for the independence of group sustainability assurance engagements, which categorizes cases in which the group sustainability assurance firm is able to or not able to direct, supervise and review the work of the component sustainability assurance firm.

- (1) In the case where the group sustainability assurance firm is able to do so, Section 5405 Group Sustainability Assurance Engagements applies for independence requirements.
- (2) In the case where the group sustainability assurance firm is not able to do so, Section 5406 Another Practitioner Involved in a Sustainability Assurance Engagements for a Single Entity or Group applies for independence requirements.

However, we have the following suggestions for improvement:

- With a wide variety of firms performing sustainability assurance engagements, many of which are likely to cross jurisdictional boundaries, there will be differences in independence between

the cases where the group sustainability assurance firm is able to or not able to direct, supervise and review the work of the component sustainability assurance firm. Therefore, we suggest that the IESBA encourage the IAASB to include relevant assurance procedures in ISSA 5000 to avoid material differences.

- Since the provisions on the independence of group sustainability assurance engagements are too conceptual and difficult to understand only by text, we encourage the IESBA to provide guidance with specific categorization methods and an explanatory memorandum with illustrative examples and diagrams to improve the understandability of preparers, users, and assurance practitioners. In addition, since the IAASB is considering adding requirements and applicable guidelines on group sustainability assurance, mainly with reference to the International Standard on Auditing (ISA) 600, we encourage the IESBA to cooperate with the IAASB in developing guidance and an explanatory memorandum on independence for group sustainability assurance engagements.

***Assurance at, or With Respect to, a Value Chain Entity***

12. Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements? *[See paragraphs 102 and 103 of this document]*
13. Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity? *[See paragraphs 104 to 110 of this document]*
14. Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:
  - (a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm’s independence?
  - (b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide? *[See paragraphs 111 to 114 of this document]*



We basically agree with the proposals for the following three types of assurance procedures performed by the sustainability assurance practitioner at, or with respect, to a value chain entity (paragraph 106 of the Explanatory Memorandum), and the independence requirements for each type.

- (a) Perform the assurance work at the value chain entity;
- (b) Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or
- (c) Perform the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity.

Also, we basically agree with the proposal that, recognizing that the level of the threats to independence that might be created by interests, relationships or circumstances involving a value chain entity will generally be lower, such threats be addressed on a “knows or has reason to believe” principle basis.

However, we have the following suggestions for improvement:

- The reporting boundary for sustainability information is broader than the reporting boundary for financial statements because the former includes value chain entities. On the other hand, we understand that the IAASB’s ED-5000 does not clarify assurance procedures at, or with respect to, value chain entities and that the above types (a), (b) and (c) are determined only by the IESBA. Since the assurance and independence standards should operate under the same definition of categorization, we suggest that the IESBA encourage the IAASB to include in ISSA 5000 the same definition of categorization of assurance procedures and how they operate at, or with respect to, value chain entities. In particular, as it is unclear whether type (c) can be considered an effective and independent assurance for sustainability information of value chain entities, we encourage the IESBA to clarify this matter.
- As it may be possible for types (a), (b) and (c) to be combined in the same value chain entity, we encourage the IESBA to clarify the treatment of such cases.
- In assurance engagements at, or with respect to, value chains, there is a wide variety of value chain entities and their assurance practitioners. However, the proposed provisions on independence are too conceptual and difficult to understand only by text. To improve the understandability for preparers, users, and assurance practitioners, we encourage the IESBA to provide guidance with specific categorization methods and an explanatory memorandum with illustrative examples and diagrams.

- The “knows or has reason to believe” principle may be a well-established concept in financial statement audit engagements, but for the objective of profession-agnostic standards, we encourage the IESBA to provide an explanatory memorandum with illustrative examples to reduce diversity in practice among sustainability assurance practitioners other than audit firms through consistent application of the standard and to improve the understandability of users of sustainability information.
- Since there are no procedures at, or with respect to, value chain entities for auditing financial statements, we believe that new methods of supervision and monitoring need to be established in each jurisdiction regarding the independence of sustainability assurance engagements at, or with respect to, value chain entities. In this regard, we encourage the IESBA to cooperate with the IOSCO on this matter.

Sincerely yours,



George Iguchi

Chair

Sustainability Reporting Committee