

5/9/2024

Comment letter to International Ethics Standards for Sustainability Assurance ED

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?
 - (b) Profession-agnostic and framework-neutral?

Ans. Yes.

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?

Ans. Yes.

Definition of Sustainability Information

3. Do you support the definition of “sustainability information” in Chapter 2 of the ED?

Ans. No. Alignment of the definitions of “sustainability matters” and “sustainability information” with IAASB (ISSA 5000 ED) should be considered.

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?

Ans. Yes.

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?

Ans. Yes.

Structure of Part 5

6. Do you support including Section 5270 in Chapter 1 of the ED?

Ans. Yes.

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?

Ans. Yes.

8. Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED)

Ans. Yes.

Determination of PIEs

9. For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements?

Ans. Yes.

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.

- (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?

Ans. In the case of group sustainability assurance engagement, it would be extremely complicated and difficult to trace all the independency because of value

chain problem. Actually, ISSA 5000 ED has no explicit reference to group sustainability assurance engagement. IESSA ED should follow this approach of IAASB.

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?

Ans. Yes, as far as in the case of standalone sustainability assurance engagement. But in the case of group sustainability assurance engagement, it would be extremely complicated and difficult to trace all the independency because of value chain problem. Actually, ISSA 5000 ED has no explicit reference to group sustainability assurance engagement. IESSA ED should follow this approach of IAASB.

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?

Ans. Yes. If IESSA defines "value chain", ISSA 5000 should also do so.

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?

Ans. No. It would be extremely complicated and difficult to trace all the independency of value chain entity.

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?

Ans. Yes.

- (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?

Ans. No. Just getting and reviewing the report from the sustainability assurance practitioner who performs the assurance work at a value chain entity should be permitted as independency consideration.

Providing NAS to Sustainability Assurance Clients

15. The International Independence Standards in Part 5 set out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client. Do you agree with the provisions in Section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG)?

Ans. Yes.

16. Subsections 5601 to 5610 address specific types of NAS.
(a) Do you agree with the coverage of such services and the provisions in the Subsections?

Ans. Yes. But as immaturity of sustainability reporting, transitional arrangements should be permitted.

- (b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

Ans. No.

Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client

17. Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client’s financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)?

Ans. Yes.

Other Matters

18. Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?

Ans. Yes.

19. Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

Ans. Problems regarding business model, meaning limitation and shortcoming of current “issuer-preparer pay model” should be considered in the future. This is quite similar to problems regarding analyst report and credit rating.

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

20. Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information?

Ans. Every preparer has their own ethic code. They already should be subject to some kind of industry guideline, or code. My understanding is that IESBA code is for PA and NPA who provide sustainability assurance engagement, but not for preparers. As a preparers' perspective, this expansion could be too severe, too much administrative burden. Expanding it to NPA who provide sustainability assurance engagement must be the solution.

21. Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics?

Ans. Yes.

Proposed Revisions to the Extant Code

22. Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including:

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- (a) Proposed revisions to Section 220?
- (b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?
- (c) Other proposed revisions?

Ans. Yes.

23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

Ans. No.

24. Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?

Ans. Yes.

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