

IOSCO STATEMENT



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
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المنظمة الدولية لهيئات الأوراق المالية

The Board of the International Organization of Securities Commissions

IOSCO Statement on the consultation on the Proposed International Ethics Standards for Sustainability Assurance (Including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

10 May 2024

The International Organization of Securities Commissions (IOSCO) congratulates the International Ethics Standards Board for Accountants (IESBA) on achieving an important milestone by consulting on their *Proposed International Ethics Standards for Sustainability Assurance (Including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting* (the Proposals). IOSCO also congratulates the IESBA on an extensive outreach program conducted during the exposure draft development and consultation period in which IOSCO representatives actively participated.

IOSCO welcomes the ambition of the Proposals and reiterates its support for this work. Final high-quality standards in this area will be important to support high-quality ethics (including independence) for reporting and assurance over sustainability-related information that can support the consistency, comparability and reliability of such information provided to the market.

In its September 2022 [statement](#), IOSCO set out some key standard setting considerations as the landscape for sustainability assurance develops. In March 2023, IOSCO published a [report](#) setting out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting.

IOSCO has analyzed the Proposals and monitored the stakeholder feedback around the world, including with reference to the considerations in the March 2023 report. Having also engaged with the IESBA to provide a capital markets perspective, IOSCO encourages the IESBA to consider some of the resulting key messages and priorities.

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IOSCO observations and key areas for the IESBA's consideration

Based on its review of the Proposals and additional stakeholder engagement, IOSCO has outlined some general observations and key areas for the IESBA's consideration in developing the final standards and providing any additional guidance.

General observations

IOSCO commends the IESBA for its timely development of the IESSA in response to the public interest need for high-quality ethics (including independence) standards to cover all sustainability assurance providers (SAPs).

IOSCO supports the general approach taken in the IESSA, including:

- the consideration of the standard-setting characteristics set out in the Public Interest Framework (PIF) as criteria to assess the proposed standards' responsiveness to the public interest;
- building upon the provisions in Parts 1 to 4A in developing standards applicable to sustainability assurance engagements (proposed Part 5) to the extent those parts are fit-for-purpose; and
- the consideration of an international standard that is principles-based but provides sufficient details to promote consistent application and behavior by all sustainability assurance providers (i.e., profession-agnostic) and that is suitable for use across all reporting and assurance frameworks (i.e., framework-neutral).

IOSCO also makes the following general observations:

- We continue to encourage the IESBA to closely coordinate with the International Auditing and Assurance Standards Board (IAASB) (collectively the Boards) to address topics of mutual importance. Specifically, we encourage the Boards to closely coordinate their work towards convergence and consistency of definitions, terms and key concepts used by both Boards in their respective sustainability-related proposed standards, such as that of "sustainability information", to promote interoperability, especially for non-professional accountants who might be using the Boards' standards for the first time. We believe profession-agnostic standards should provide, or be supplemented by, clear guidance suitable for use by all types of assurance providers, including guidance on key definitions and terminology.

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- We have previously communicated, through prior comment letters, some specific observations where we believe the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) could be strengthened, including observations related to enforceability, the strength of requirements, the use of substantive safeguards, the need for more stringent prohibitions, and guidance on how to evaluate materiality in the Code. We note that these comments are focused primarily on the application of the Code to assurance over information reported by public interest entities. Due to these considerations, we urge the IESBA to consider reviewing and revising the Code as it relates to public interest entities as a matter of high priority once it has finalized the IESSA. While we acknowledge that any further revisions will need to be considered separate from finalizing the Proposals, we believe further work to strengthen the Code in Parts 1 to 4 and proposed Part 5 will serve the public interest and enhance trust in, and reliability of, financial and sustainability information provided to investors and other users.

Key areas and priority topics for the IESBA's consideration

In addition to the observations above, IOSCO encourages the IESBA to consider the following priority topics in its efforts to develop high-quality international ethics and independence standards for sustainability assurance:

1. Scope of the International Independence Standards in Part 5

We support the objective that the International Independence Standards (IIS) in proposed Part 5 that apply to sustainability assurance engagements should have the same level of public interest as is applicable to audits of financial statements of public interest entities. However, as there are many circumstances in which more than one of the three criteria for such engagements (listed in paragraph 5400.3a) could be applicable, we believe it would be more appropriate to list them as “and/or” criteria. We also believe any assurance over sustainability information required to be provided in accordance with law or regulation (such as a specific sustainability metric) should be subject to the IIS, not only such information reported in accordance with a general-purpose framework.

2. Non-Compliance with Laws and Regulations (NOCLAR)

We generally support the proposed provisions for the auditor and the sustainability assurance practitioner to communicate actual or suspected NOCLAR to each other.

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However, we believe the communication requirements should be strengthened as the requirement associated with a *consideration* is not always clear, could be perceived as optional, and may result in inconsistent application.

Further, to comply with the principle of confidentiality, we believe the proposed provisions should be updated to include provisions to obtain the entity's permission where legally required, preferably in writing, to initiate discussions with the professional accountant (PA)/SAP. Additionally, where the entity fails or refuses to grant permission to discuss the entity's non-compliance or suspected non-compliance with the PA/SAP, the PA/SAP shall determine if further action is needed in the public interest and the nature and extent of such further action.

3. *Group sustainability assurance engagements*

As certain jurisdictions have sustainability reporting practices that may be subject to mandatory or voluntary assurance involving more than one entity or business unit, we strongly support the IESBA's decision to specifically address group sustainability assurance engagements in its proposed IIS in Part 5.

As part of our [statement](#) on the IAASB's Proposed International Standard on Sustainability Assurance (ISSA) 5000, we encouraged the IAASB to develop implementation guidance as it relates to group sustainability assurance engagements to facilitate consistent application of the requirements. We believe the different approaches taken by the Boards related to group sustainability assurance engagements may create further implementation challenges for all practitioners, particularly those who may not have previous experience conducting audits, including group audit engagements, and thereby may not be familiar with the terms and concepts in the International Standard on Auditing (ISA) 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*. We therefore encourage the IESBA to coordinate and work with the IAASB as they develop implementation guidance to facilitate the consistent application of the requirements in ED-5000, and the IIS provisions in a group sustainability assurance engagement situation.

4. *Value chain*

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IOSCO is supportive of the IESBA’s inclusion of provisions as it relates to the value chain. However, we believe certain provisions could be strengthened and/or clarified to promote consistent application.

In particular, the proposed definition of “value chain” in the context of sustainability assurance engagements may lead to diversity in practice given the diversity of concepts underlying the definition in different sustainability reporting frameworks. To promote consistent application of the various requirements in Part 5 of the Code, we believe the IESBA should consider a definition of “value chain” that is anchored in the concept of information originating outside of the entity’s organizational boundary.

We generally agree with the overall concept in proposed Part 5 that each SAP should be independent from the sustainability assurance entity where they have been engaged to perform a sustainability assurance engagement. However, we believe the proposed language is complex and may result in understandability and implementation challenges.

5. *Transparency*

IOSCO supports the IESBA’s approach to the proposed requirement that “if a sustainability assurance entity is a PIE, Part 5 requires the firm to publicly disclose the fact that it has applied the independence requirements for PIEs in the same manner as Part 4A requires for audit engagements.” To operationalize the IESBA’s transparency requirement, we believe it is important for the Boards to coordinate to achieve interoperability.

IOSCO’s observations aim to support a timely finalization of the standards to promote effective international ethics and independence standards for sustainability assurance.