



Sent via email: KenSiong@ethicsboard.org

May 8, 2024

International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Re: Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Related to Sustainability Assurance and Reporting

Dear Members of the International Ethics Standards Board for Accountants:

The Professional Ethics Executive Committee (PEEC or committee), on behalf of the American Institute of Certified Public Accountants (AICPA), recognizes the efforts the International Ethics Standards Board for Accountants (IESBA) has put forth on its [Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Related to Sustainability Assurance and Reporting exposure draft](#) (the exposure draft) in an effort to strengthen the ethical requirements, including independence, for professional accountants (PA) in public practice and in business related to performing sustainability assurance engagements and reporting sustainability information, as well as for those sustainability assurance providers (SAP) who are not PAs (non-PAs). PEEC appreciates the opportunity to provide feedback on the proposed standards to help inform IESBA's standard-setting process.

Though PEEC agrees that it is important for those reporting and assuring sustainability information to have clear guidance on relevant ethical requirements, including independence, when carrying out those activities, we have significant concerns with the proposed IEISSA.

The proposed IEISSA does not satisfy the Public Interest Framework

As a result of the effort to make the IEISSA profession agnostic and equivalent to part 4A, as described below, the proposed IEISSA has several deficiencies. The proposed IEISSA

- lacks clarity;
- is not interoperable with the proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance* due, in part, to several inconsistencies;
- is premature;
- and will undermine the public trust in PAs.

Therefore, the proposed IEISSA does not meet the characteristics of the Public Interest Framework (framework). IESBA should take all steps necessary to address these deficiencies, even if that means re-exposing or deferring portions of the proposed IEISSA.

IESBA's issuance of profession-agnostic standards is not in the public interest

PEEC agrees that, conceptually, all SAPs should consider relevant ethical requirements in the provision of their services. However, IESBA should not promulgate ethical requirements, including independence, for non-PAs.

IESBA's remit is setting ethical standards for professional accountants under the oversight of the Public Interest Oversight Board (PIOB). IESBA is required to develop standards with the intention to adhere to the framework, which establishes the development and oversight of international audit-related standards that are responsive to the public interest. The framework includes, among other characteristics, clarity, timeliness in addressing identified needs without sacrificing quality, implementability, enforceability, and consistent and global application. The proposed standards do not meet these characteristics.

The proposed IESSA lacks clarity

Extant IESBA standards use vocabulary and concepts commonly understood by PAs, supported by formal education, ongoing training, experience, and definitions in various professional standards. If profession-agnostic standards use terms that differ from those used in the extant professional and ethics standards to broaden their applicability, such ethical standards are likely to be inconsistent, confusing, and misunderstood by PAs and stakeholders alike. An example of this is described in our response to question 7. The lack of consistency with extant International Audit and Assurance Standards Board (IAASB) standards is problematic.

Even if IESBA were to use the same terms and propose equivalent requirements, there is no way to ensure that non-PAs, without the equivalent level of education, ongoing training, appropriate experience, and appropriate regulation, can understand and apply those requirements appropriately. Stakeholders will have no way of knowing whether a non-PA adequately understood and was able to apply the IESSA.

The public trust will be eroded

The public accounting profession has had additional public protection requirements in place for decades that, when combined with the code, allow the public and capital markets to trust and rely on PAs. The additional public protections include obtaining and maintaining credentials and licenses, robust performance and quality management standards, ongoing quality inspections, and stringent enforcement processes that identify and discipline those not in compliance with the requirements.

Allowing standards for PAs to be used by non-PAs ultimately will cause stakeholder confusion and dilute PA standards, thereby eroding trust in PAs, and harming the public interest. Allowing non-PA SAPs to use and cite the code when these other public protections are not in place may give stakeholders the impression that those providers are subject to the same rigorous standards as PAs. Even worse, a stakeholder may believe that those SAPs are in fact PAs, when they are not. If misapplied by non-PAs, this could damage the reputation and public's trust in the IESBA code as well. PEEC strongly urges that SAPs other than PAs should not be able to hold out compliance with IESBA's code.

If IESBA proceeds as planned, the board has a duty to ensure its code is not used without appropriate protections. Otherwise, the public may mistakenly believe that non-PA assurance that cites the code is equivalent to PA assurance. IESBA must do more than simply encourage regulators to put those protections in place. We strongly urge adding a stipulation in part 5 that SAPs other than PAs cannot hold out as complying with IESBA's code unless

- a relevant regulator has put the same public protections in place that PAs are subject to, including quality management, oversight, and enforcement and
- the regulator requires full compliance with part 5.

The proposed IESSA contributes further to this concern, as it clearly provides that PAs must apply part 4B independence standards to a sustainability assurance engagement not meeting the criteria in paragraph 5400.3a, whereas non-PAs are only “encouraged” to apply part 4B for the same engagements. In addition, the scope of the proposed IESSA is limited to addressing only those services provided to a sustainability assurance client, while PAs apply the code to all services that they provide, not just those services provided to an assurance client. Additionally, ISSA 5000 engagements require compliance with ISQM 1 or a standard at least as demanding. It appears that 5400.4 does not. Allowing non-PAs to apply less rigorous standards than PAs is highly concerning from a public interest perspective, as it will undoubtedly cause confusion on the part of users of those reports.

[The IESSA is premature and will create adoption challenges for national standard setters](#)

Though PEEC agrees that sustainability is an important topic, the committee is concerned about the immaturity of the environment and overlap with other evolving requirements, such as those related to public interest entities (PIEs), related entities, group, and value chain entities. Sustainability is a relatively new and rapidly evolving area for practitioners, regulators, and standard setters. There is no specific definition nor general understanding of the term “sustainability.” There are diverse reporting objectives and stakeholders. Regulators have not yet concluded what subject matters should be addressed by regulation. This creates a significant opportunity for unintended consequences and lack of interoperability with other standards such as ISSA 5000.

Furthermore, input into IESBA's due process emanates largely from highly experienced accounting organizations, accounting firms, and stakeholders with an understanding of accounting and auditing (including applicable ethical) standards, financial statement reporting and stakeholder requirements. Only 5 non-PA SAPs responded to the IAASB's ISSA 5000 exposure draft, compared to 21 respondents that were in the public accounting profession; 2 of the 5 non-PAs indicated that the ISSA 5000 exposure draft was not clear. This minimal non-PA feedback on the subject matter, combined with the lack of clarity noted by non-PAs, further supports PEEC's concerns.

Finally, IESSA's lack of clarity, inconsistency with other standards, and intent to be profession-agnostic will undermine the purpose for which IESBA was created — “facilitating the convergence of international and national ethics standards for professional accountants.” (IESBA Term of Reference at 2.1). National standard setters will struggle to adopt a standard that is confusing, inconsistent with

extant performance standards, and that may have unintended consequences because of its prematurity. Some organizations may not be permitted to adopt non-PA codes of ethics. Accordingly, there is likely to be inconsistent adoption and enforcement of the requirements for PAs across jurisdictions. Convergence with the IESBA code will become even more challenging and less likely. Critically, if IESBA is no longer perceived as having as its priority standard-setting for the benefit of PAs and their stakeholders, national standard setters may lose confidence in IESBA's standard-setting leadership and refocus on their own efforts to ensure robust standard setting continues for licensed PAs in their professional jurisdictions.

Interoperability with standards set by the IAASB

The International Foundation for Ethics and Audit (the foundation) was created to strengthen the international audit and assurance related “standard-setting system” to be more responsive to the public interest. This system includes standards issued by the IAASB and IESBA, and encompasses all audit, assurance, ethical, and independence standards. This standard setting system can be responsive to the public interest only when the ethical standards, including independence, are supportive, consistent, and interoperable with the respective audit and assurance standards.

For example, the U.S. Securities and Exchange Commission adopted standards relating to climate disclosure with profession agnostic aspects. The SEC standards, however, identify specific applicable reporting, assurance, and ethical standards. This allows for an interoperable environment and demonstrates the importance of IESBA and the IAASB coordinating their efforts toward better alignment.

The PIOB and IOSCO has echoed support for the coordination of the two boards. In its [Public Interest Issues: IESBA Projects](#) (report as of November 7, 2023), the PIOB indicated that it is crucial that IESBA and the IAASB coordinate their sustainability workstreams and assess the interoperability of their scopes. In its September 22, 2022 [statement](#), IOSCO welcomed the work of the two boards, and described IESBA as being one of the “international audit and assurance standard setters” along with the IAASB. The statement also encouraged the IAASB and IESBA to collaboratively engage with each other.

We urge that before the exposure draft deliberations are complete, IESBA and the IAASB jointly develop a long-term vision and strategy for addressing ethical requirements, including independence, in sustainability assurance engagements, and determine how the two boards will clearly align their requirements. We believe this is critically important because when the two boards are not aligned, inconsistencies between each board's projects are likely to result, inhibiting interoperability. Examples of inconsistency between ISSA 5000 and the proposed IESSA include the definition of sustainability information and elements of the proposed requirements for group assurance, another practitioner, value chain entities, and noncompliance with laws and regulations (NOCLAR), which are discussed in our responses to the specific questions.

We believe that IESBA has the support of its stakeholders to work closely with the IAASB to resolve the inconsistencies between the standards to improve interoperability prior to adoption.

Performance standards should not be included in the code

The line between ethical and performance standards, including audit and assurance standards issued by IAASB, should be distinct. If IESBA has identified deficiencies in performance standards, the board should identify a way to engage the appropriate parties, including IAASB, to address those standards, instead of adding performance requirements to the code. Comingling performance standards in the ethical standards will lead to confusion and a lack of interoperability between these standards.

Certain requirements that have been proposed in the IESSA (for example, those requirements related to group assurance, another practitioner and value chain) belong in the performance standards. However, standards in these areas have not yet been fully developed by the IAASB. If IESBA adopts requirements through the proposed IESSA, they may conflict with, or supplant, the work of IAASB. We noted that during IAASB's March 2024 board discussion on groups and components, the board seemed to be entertaining a different direction than that contemplated by IESBA.

Due process

We acknowledge that IESBA's December 2024 completion date is intended to align with the IAASB and other regulatory timelines. It is in the public interest to issue standards that practitioners can understand, align with IESBA's fundamental principles, are interoperable with the IAASB, and could be implemented by national standard-setters. Accordingly, IESBA should not be pressured to issue standards that do not achieve these goals.

Request for specific comments

<i>Main objectives of the IESSA</i>
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?
Overall response: No. See our response to question 4 as well as detailed comments here. Detailed comments: The literal execution of IESBA's objective to propose independence requirements for sustainability assurance engagements that are equivalent to the independence requirements for financial statement audits is inappropriate because the requirements should be developed with the goal of addressing significant threats. The subject matter of sustainability assurance engagements differs and therefore, threats can differ. A threats approach to drafting the standard would avoid requirements that are unnecessarily prescriptive and costly to the client (and therefore, investors and other stakeholders). In IESBA's approved Sustainability Project Proposal , paragraph 13 explains that the part 4B requirements "are not sufficiently robust for providing assurance on sustainability reporting prepared under a general-purpose reporting framework" and indicated that the "more robust independence provisions that apply to audits of financial statements in Part 4A of the Code is the appropriate <i>starting point</i> [emphasis added] for developing ethics and independence

standards for sustainability assurance engagements.”

Our expectation in using part 4A as a *starting point* for the proposed independence requirements for sustainability engagements is that requirements would be tailored appropriately to address relevant threats. The proposed requirements for related entities, and public interest entities (PIEs), are overly prescriptive and do not appropriately address relevant threats, as explained further below and in our response to question 9, respectively.

PAs have indicated to us that their firms may choose not to provide sustainability assurance to entities that are not already financial statement audit clients due to the additional cost of compliance created by the PIE and related entity requirements. If this occurs, it could limit the number of practitioners available to the entity.

Related entities

IESBA used the definition of “audit client” to draft the proposed definition of “sustainability assurance client,” which means that for those entities that are not publicly traded entities, the definition of “sustainability assurance client” includes entities that the client directly or indirectly controls. For publicly traded entities, it also includes all other related entities as defined in the IESBA code.

In financial statement audits and reviews, when the applicable reporting framework requires consolidated reporting, the related entities are generally the same entities within the organizational boundary that are required to be included for consolidated reporting and all those entities will generally have financial information that is included in the consolidated report.

In a sustainability assurance engagement, though consolidated reporting may be required, not all entities (or related entities) will have sustainability information that is included in the consolidated report. For sustainability reports that do not include information from related entities, sustainability assurance practitioners should be allowed to evaluate circumstances, including interests and relationships, with the related entity using the conceptual framework.

For example, a holding company could own a renewable energy company and a digital technology company, and the applicable general-purpose framework could require consolidated reporting of the holding company’s material GHG emissions. The practitioner is engaged to perform a sustainability assurance engagement at the holding company. In this scenario, the sustainability information that is considered material by management and required to be reported may only be information that comes from the renewable energy subsidiary. If an immediate family member of a sustainability assurance team member is a director at the digital technology company but has no influence on the information subject to the sustainability assurance engagement, the proposal should allow for the SAP to use the conceptual framework to determine the course of action. Alternatively, the requirements could include certain exceptions, such as allowing for employment relationships or other relationships and circumstances, when the related entity does not report significant sustainability information that is subject to assurance and does not have influence over that information.

Using the same holding company and reporting situation as above, if a sustainability assurance team member had a direct financial interest in the digital technology company, it is not likely that

the sustainability information being assured at the holding company would have a significant impact on the digital technology company. Considering that the sustainability information is not related to that subsidiary, a significant self-interest threat is unlikely to exist without any other factors present.

If the sustainability assurance engagement was performed at the renewable energy company and it meets the definition of a PIE for financial statement audit purposes, the employment and financial interest relationships with the digital technology company, a sister entity, would pose an even lesser independence threat to the engagement.

In the short term, related entities may not be required to report sustainability information because several reporting frameworks will require that sustainability information be reported only by the entities in a specific jurisdiction as an initial step and not by all entities within the organizational boundary. This makes it even more important that the requirements focus on the entities within the organizational boundary that report sustainability information that is subject to the sustainability assurance engagement to appropriately address threats to independence.

(b) Profession-agnostic and framework-neutral?

Overall response: Yes, we agree that overall IESBA has proposed profession-agnostic and framework-neutral requirements; however, we have concerns with this approach as described in our detailed comments and in the “IESBA issuance of profession-agnostic standards is not in the public interest” section of this comment letter.

Detailed comments: Although the IESBA code does not currently require a PA to use standards issued by the IAASB, the code is meant to be interoperable with IAASB standards or jurisdictional equivalents, and this supports IESBA’s strategy to minimize fragmentation.

While we understand that non-PAs may be using quality management and assurance standards developed by organizations other than the IAASB, we do not believe the IESSA should be used unless a regulatory or other oversight body provides for use of the IESSA *and* oversees the services or the SAP (emphasis added). Doing so will help to maintain the strength of the IESBA code and minimize stakeholder confusion.

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?

Overall response: No.

Detailed comments: The proposal lacks many of the characteristics of the Public Interest Framework as more fully explained throughout this comment letter. We highlight the most significant deficiencies below:

- *Consistency:* The proposal lacks consistency with the priorities established through its strategy to coordinate with the IAASB to achieve globally operable and adoptable standards.

- **Coherence:** The proposal lacks coherence with the overall body of standards, due to its conflicts and inconsistencies with IAASB standards that address the same subject matter.
- **Scope:** Adding profession-agnostic standards to the code is not within the remit of IESBA, and it is inappropriate to provide different, more limited requirements in part 5 for SAPs that are not PAs.
- **Completeness:** The proposed IESSA requires revisions to make it interoperable with ISSA 5000. Additionally, given the rapidly evolving sustainability reporting landscape, the standard requires further consultation and identification of any unintended consequences.
- **Clarity and conciseness:** The proposal lacks clarity and conciseness, as discussed in detail throughout this letter.
- **Implementability:** Specific sections of the proposal will not be implementable as a result of the lack of clarity and conciseness, causing inconsistent application and possible lack of adoptability by national standard setters.
- **Enforceability:** Other than the fact that most jurisdictions do not yet have mechanisms in place to enforce requirements for non-PA SAPs, the lack of clarity, conciseness, and implementability may also cause challenges for jurisdictions and national standard setters to enforce the requirements for PAs.

Definition of “sustainability information”

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

Overall response: No.

Detailed comments: PEEC does not support the proposed definition of “sustainability information” as it may be too broad and is inconsistent with the definitions proposed by IAASB.

Too broad

The explanatory memorandum notes that the definition is intentionally broad to be interoperable with various reporting and assurance frameworks. It also indicates that the proposal uses terminology that that all SAPs should be able to understand. The breadth of the proposal could cause confusion and inconsistent application among sustainability assurance practitioners. This broad definition could also cover engagements that IESBA and the IAASB did not intend to be sustainability assurance engagements. We have received questions about whether cybersecurity assurance engagements or Sarbanes-Oxley Act (SOX) 404 engagements would be scoped in, for example, given the subject matter of these engagements.

As explained in the BBC article [“How ‘ESG’ came to mean everything and nothing.”](#) the term ESG has “morphed into an umbrella catchphrase with little concrete meaning.” It seems that IESBA’s proposed definition may unintentionally capture almost anything the entity reports and has assured, and we do not believe this is the board’s intention. It’s important that the determination of what is considered a sustainability assurance engagement is consistent among practitioners because this will drive the practitioner to consider whether part 5 or part 4B

independence requirements will apply. To help with consistency, we recommend that IESBA refine item (a) of the definition of sustainability information so that its parameters are clearer or remove item (a) and allow the applicable reporting framework to guide the SAP.

Coordination with the IAASB

The exposure draft explanatory memorandum explains that the definitions the IAASB uses serve a different purpose than those proposed by IESBA, and that IESBA's definition of "sustainability information" encompasses the IAASB's definition of "sustainability matters" and "sustainability information" although this is not explicitly stated in the proposed definition or application guidance. These inconsistencies will cause confusion in practice as sustainability assurance practitioners will likely believe that there is a meaningful difference between how each standard setter defines these terms when that is not the intention.

Regardless of whether IESBA decides to include the definition for sustainability information in the code, IESBA should coordinate further with the IAASB to more clearly understand the types of engagements the IAASB intends to be performed under ISSA 5000, and to ensure that each board's respective standards are clear, consistent, and operable with one another.

Scope of the proposed IESSA in part 5

4. 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?

Overall response: No.

Detailed comments: We disagree with the proposed scope for the ethics standards in part 5, because it results in increased risk of confusion among PAs and less stringent requirements for non-PAs, neither of which are in the public interest.

Because of the proposed scope of part 5, professional accountants will have to look to part 5 and parts 1–4B, as demonstrated in appendix 1 of the explanatory memorandum, to ensure that they are complying with the incremental and more robust requirements already applicable to PAs. This is confusing (hence, the need for such diagram in appendix 1) and creates a greater risk of misapplication and inconsistent application in practice by professional accountants. We would support a single version of the requirements that are applicable to PAs when performing a sustainability assurance engagement to help reduce the risk of misapplication or inconsistent application in practice.

Part 5 also sets forth less stringent requirements for non-PAs. Professional accountants are required to comply with the ethics requirements, including independence, for all services they perform. Non-PAs should comply with the same standards professional accountants are required to comply with for ethics requirements, including independence, for all services that they perform. In appendix 1, IESBA encourages but does not require non-PAs to comply with parts 1–4B. Stakeholders will not know that PAs and non-PAs are subject to different requirements unless they read appendix 1. The public interest is not served by having differing ethical requirements for non-PAs and PAs. This will have serious negative consequences with

respect to protecting stakeholders and maintaining public trust, as discussed above.

5. 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?

Overall response: No.

Detailed comments: The criteria described in 5400.3a(b) requires clarification and refinement.

Lack of clarity of item (i)

The trigger for item (i) is unclear:

- Is the trigger when law or regulation requires a sustainability assurance engagement be performed over specific sustainability information?
- Is the trigger simply a requirement to provide sustainability information?

We believe the trigger should be the former (i.e. when law or regulation requires an engagement to be performed).

If the intent is the latter (i.e., simply a requirement to provide the information) this could result in more engagements that will meet the criteria without the sustainability assurance practitioner's knowledge.

Lack of clarity and unintended consequences of item (ii)

Because of the lack of clarity and the possible unintended consequences, item (ii) should be removed and evaluated further as this environment evolves and matures.

The trigger for item (ii) is unclear:

- Is it when the sustainability information is in the public domain?
- Or is it when the public has been made aware that such information has been assured?

Also, the phrase "publicly disclosed for decision-making purposes by investors or other stakeholders" is unclear.

Does "publicly disclosed" simply mean that a general use report is intended to be provided to others outside the client? If so, should practitioners assume that any sustainability assurance report that is not restricted for internal use could be "publicly disclosed"?

For example, the practitioner may not know at the time of the sustainability assurance engagement whether the engagement meets this criterion or will meet the criterion in the future if the client makes the report publicly available. The client could make the report publicly available at any point, even months after the engagement has been completed. In that case and assuming the information was reported in accordance with a general-purpose framework, part 5 independence would be required when those requirements may not have been applicable at the time of the engagement.

It is also unclear how a sustainability assurance practitioner will determine that the publicly

disclosed sustainability information the practitioner assured will not be used for decision making purposes. Intuitively, a company will publicly disclose information only to support decisions made by its stakeholders (investors, customers, vendors, etc.).

For all of the above reasons, the criterion as drafted with no application guidance will be challenging for sustainability assurance practitioners to apply consistently.

Structure of part 5

6. Do you support including section 5270 in chapter 1 of the ED?

Overall response: No comment.

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?

Overall response: No.

Detailed comments:

Communication among auditor and SAPs

We do not agree that the auditor and SAP should consider communicating a NOCLAR to each other when those practitioners are not within the same firm or network firm. Because of the diverse nature of these engagements, there may be numerous SAPs and the auditor may not be aware of who is performing each sustainability assurance engagement that meets the criteria in 5400.3a. Once the NOCLAR has been communicated to the client, it's the client's responsibility to communicate NOCLAR to other assurance providers or the auditor.

As was the case with extant NOCLAR provisions, confidentiality requirements in the United States prohibit firms from communicating confidential client information with firms outside the firm or firm's network, so we cannot require that the auditor or sustainability assurance practitioner communicate or consider communicating NOCLAR with a firm outside the firm or firm's network. Other jurisdictions may face similar barriers because of laws, regulations, or professional standards. Therefore, we recommend that R5360.18a and R360.18a be moved to application guidance that indicates that a practitioner *may* consider, rather than *shall* consider, and that the confidentiality requirements applicable to the practitioner be included as a relevant factor that may be considered.

New and overly broad terminology

We find the proposed addition of "impacts" in 5360.3 and 360.3 very confusing. It is unclear what NOCLAR "generally recognized to have a direct effect on the determination of material...impacts...in the client's sustainability information" means. It is also unclear what NOCLAR "generally recognized to have a direct effect on the determination of

material...impacts...in the client's financial statements" means, as this is not a concept in the extant code related to financial statements.

Misalignment with the IAASB

There is misalignment between IESBA and the IAASB about whether NOCLAR applies to value chain entities. IESBA excludes value chain entities as explained in the proposed 5360.7 A3. However, it is our understanding that the IAASB may not be excluding value chain entities in ISSA 5000 "*Fraud and Non-compliance with Law or Regulation*" paragraphs 59-61. Under such a circumstance, it seems that the practitioner could be subject to NOCLAR provisions for the value chain entity. This inconsistency will contribute to the inoperability of these requirements in this situation.

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)

Overall response: 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?

Overall response: No.

Detailed comments: Given the lack of maturity in the reporting of sustainability information and the potential barrier to entry the PIE requirements may create, we do not agree with extending the PIE requirements to a sustainability assurance client when the practitioner is not also the financial statement auditor. It is also inconsistent with the IAASB to include PIE requirements when specific requirements for PIEs have not yet been proposed in ISSA 5000. As recommended and more fully explained in the AICPA comment letter to the IAASB on its PIE track 2 project, we recommend that IESBA defer PIE provisions until both IESBA and the IAASB can develop a joint strategy and comprehensive approach to PIEs.

We understand that investors are taking steps toward integrating sustainability issues into their investing criteria, and that companies may become more selective in choosing who to do business with based on a company's sustainability risks and opportunities.¹ We also understand that reporting standards, such as IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, require an entity to disclose material sustainability information that could reasonably be expected to affect the company's cash flows, or access to financing, or cost of capital. However, what investors or businesses are considering with respect to sustainability information, and what entities are considering material sustainability information is subjective, and it is unclear whether the two will align. "Material" sustainability information may not have a material or even significant effect on the financial condition of an entity, and in these early stages, the information an entity may consider "material" for reporting may not be

¹ 2019 Harvard Business Review article, "The Investor Revolution" <https://hbr.org/2019/05/the-investor-revolution>

significant for investors or the entity's business relationships.

As indicated in IESBA's basis for conclusion for the PIE revisions, respondents² suggested that the focus of the public interest should go beyond the financial condition of entities to include consideration of non-financial information, and this suggestion was echoed within the IAASB. During the IESBA discussions on this sustainability proposal over the past year, there seemed to be an acknowledgement that the factors for public interest for financial statement audits would not capture all entities subject to sustainability assurance engagements that should be considered PIEs for sustainability purposes. The opposite is also true in that these requirements would make some sustainability assurance engagements subject to the PIE requirements when the sustainability information subject to assurance is not of significant public interest. In these circumstances, the requirements are overly prescriptive when the same threats to the public interest may not exist, and IESBA should take this into account when considering whether the PIE requirements in part 4A are appropriate for sustainability assurance engagements.

We are also concerned that the proposed PIE requirements (long association, audit committee concurrence, fee disclosures, nonassurance services, etc.) will create barriers to entry in this narrowly focused subject area where more practitioners are needed. Based on our discussions with professional accountants in the U.S., a likely outcome of the proposed standards would curtail performing a sustainability assurance engagement for a PIE sustainability assurance client unless the firm already performs the financial statement audit for the same client. The increased cost of compliance to provide a sustainability assurance engagement to a PIE sustainability assurance client unless the PIE independence requirements are already in place for a PIE financial statement audit client, may not create a sufficient business case to take on such clients. A healthy competitive marketplace is integral to the public interest.

We recommend that the IAASB and IESBA defer application of PIE independence requirements to sustainability assurance engagements until further information is available to identify what sustainability information may be of the public interest. In the meantime, SAPs would apply the conceptual framework, when applicable. This will allow regulators time to determine what PIE requirements are appropriate for their jurisdictions, which IESBA could leverage in a future project to develop these requirements.

Group sustainability assurance engagements

10. 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?

Overall response: No.

Detailed comments: We do not support addressing group sustainability assurance

² Paragraph 30 of IESBA's basis for conclusion for the PIE revisions.

engagements in part 5 because the proposal inappropriately includes performance standards and is being proposed prior to the IAASB's development of such requirements.

With respect to paragraph 86 in the explanatory memorandum, IESBA is equating the concept of group assurance with reporting frameworks that require consolidation. The concept of reporting on group sustainability information frequently addresses involvement of other practitioners in performing assurance procedures on the group sustainability information. A reporting framework can require consolidation without triggering the group assurance procedures relevant to the involvement of other practitioners. This is the case when only one practitioner performs the assurance work over the consolidated reporting entity. Therefore, IESBA's rationale for including these requirements is insufficiently supported.

Nevertheless, we do agree that assurance could be carried out in a group but believe that requirements should be consistent and operable with the assurance standard.

If IESBA chooses to address group sustainability assurance engagement, we have the following additional concerns with the proposal:

- IAASB has had only limited discussion about group assurance standards as of the March 2024 board meeting, which included the concept that value chain entities could be part of a group assurance engagement. The IESBA's proposed definition for component excludes value chain entities while during IAASB's March 2024 board meeting, IAASB introduced a definition of component that does *not* specifically exclude value chain entities. As a result, a value chain entity could be part of the group assurance engagement if IAASB moves forward in this direction. This is a critical inconsistency between the two boards that would significantly contribute to the inoperability of the standards.
- As a result of pre-empting the IAASB's ISSA 5000 proposal with group assurance requirements, IESBA is proposing to include performance standards in the code as reflected in paragraphs R5405.3 and R5405.4, for example. For financial statement audits, these requirements are included in the auditing standard. The IESBA code should not include performance standards as discussed further in the "Performance standards should not be included in the code" section of this comment letter.
- Our members have expressed that Section 405 has been extremely challenging to implement in financial statement audits. We are concerned that the proposed requirements would be more difficult to implement in a sustainability assurance engagement.

We recommend deferring these requirements until the group sustainability assurance standard is fully developed by IAASB. Once developed by IAASB, IESBA could consider what independence guidance is needed. In the meantime, a more conceptual approach could be developed by IESBA, and strongly encourage coordination with IAASB prior to adoption.

- (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)?

Overall response: No.

Detailed comments: We do not support including group sustainability assurance requirements prior to the development of such requirements by IAASB. However, once developed by IAASB, IESBA should consider whether the same level of requirements are appropriate, giving attention to whether modifications are necessary for the differences in a group sustainability assurance engagement versus a group audit.

(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?

Overall response: No.

Detailed comments: As previously explained, we do not believe it to be appropriate for IESBA to include performance standards within the IESBA code. When IESBA believes that the assurance standards are lacking necessary requirements, IESBA should attempt to resolve those concerns with IAASB.

(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”)?

Overall response: No. See response to question 10(a).

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?

Overall response: No.

Detailed comments: As proposed, this section addresses instances when a component of the sustainability assurance client is subject to a sustainability assurance engagement by another practitioner and the client’s sustainability assurance practitioner is unable to direct, supervise, and review the assurance work performed at the component. This is inconsistent with the independence requirements for financial statement audits. Also, it is not clear if Section 5406 is consistent and operable with IAASB’s requirements in ISSA 5000 with respect to using another practitioner.

It is our understanding that ISSA 5000 describes using the *report* (rather than “work”) of another practitioner similarly to how a practitioner would use a service organization’s report on controls

in a financial statement audit. However, applying this assurance approach to a component seems to contradict the assurance standards premise that the practitioner should plan to be sufficiently involved in the assurance work, which a practitioner should be able to do for a component of a sustainability assurance client. We again recommend and encourage further coordination between IESBA and IAASB to clarify the intentions of the assurance standard and ensure that independence requirements are consistent and supportive of ISSA 5000.

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?

Overall response: No.

Detailed comments: Paragraphs 102 and 103 of the explanatory memorandum describe the definition for this term more clearly. IFRS 1, *General Requirements for Disclosure of Sustainability-Related Financial Information*, defines value chain and we believe that definition could be helpful in assisting the IESBA in drafting guidance for value chain within the code. The value chain as defined in IFRS isn’t described as an entity but “interactions, resources and relationships related to a reporting entity’s business model and the external environment in which it operates.” It seems as though guidance for this definition could better describe a “value chain” as interactions, resources and relationships with an entity, within the reporting boundary but outside of the reporting entity (or organizational boundary), that includes information in the sustainability assurance client’s report for sustainability reporting purposes.

We agree with the last sentence included in the definition as guidance that indicates that components are not included in the value chain.

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?

Overall response: No.

Detailed comments: We do not support the provisions in section 5407 and believe the section should be removed. The proposed requirements are inconsistent with the direction the IAASB is heading with ISSA 5000, unnecessary, and the proposed section includes performance standards, which should not be included in the code.

According to the discussions held during the IAASB’s March 2024 board meeting, the assurance standard may address assurance work at, or with respect to, a value chain entity in a group approach or by using the report of another practitioner similarly to how a practitioner would use a service organization’s report on controls in a financial statement audit. The IAASB’s discussed approach did not address the circumstances proposed by IESBA in items (a) and (b) of paragraph 5407.2 A1. Accordingly, the two boards seem to be taking inconsistent approaches and it may be unnecessary for IESBA to address these two circumstances.

Though the two boards seem to be aligned with the circumstance in item (c) of 5407.2 A1, addressing this circumstance may be confusing because it seems unnecessary. As such, we

recommend that section 5407 be removed.

We further note that this section outlines how assurance work might be carried out, which is outside of IESBA's purview as discussed further in the "Performance standards should not be included in the code" section of this comment letter. As explained previously, this is expected to cause significant confusion for sustainability assurance practitioners, especially when such requirements proposed by IESBA are not consistent and operable with IAASB standards.

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?

Overall response: No.

Detailed comments: Section 5700 should be removed in its entirety because the sustainability assurance practitioner is already required to consider the conceptual framework. These proposed requirements go beyond the requirements for audit clients, and generally, we believe any threats that may exist would be trivial and inconsequential in this circumstance for the reasons below.

- Value chain entities are generally unrelated third parties to the sustainability assurance client. The sustainability assurance client is responsible for reporting, as well as implementing controls over reporting and the reliability of information from the value chain.
- Another practitioner will have assured the value chain's sustainability information that is being included in the sustainability assurance client's report and is required to be independent of that value chain entity in its assurance engagement, which the sustainability assurance practitioner may obtain as evidence from the sustainability assurance client.

- (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?

Overall response: No.

Detailed comments: For the reasons described in response to question 14(a), we do not support the guidance included in section 5700 and believe that it should be removed. The IESBA code requires the use of the conceptual framework when a threat not otherwise addressed by the code is identified, which we believe is sufficient.

Requiring a "knows or has reason to believe" principle with respect to value chain entities will cause confusion and inconsistent application among practitioners.

We also noted that paragraph 5700.2 indicates that this section sets out application material

while there is a requirement and application material in this section.

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 SAP 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)?

Overall response: Yes, with exceptions.

Detailed comments: Outside of our concerns and objections related to the PIE requirements as discussed in response to question 9., SAPs will need some clarification regarding how to apply the “might” create self-review threats in paragraph R5400.32 and R5600.17, so that diversity in practice does not develop.

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?

Overall response: No.

Detailed comments: Given the immaturity of this area and how broad sustainability information is defined, we are concerned that these revisions could have unintended consequences.

We are concerned that section 5601 is too broad in that it may be applicable to services outside of those recordkeeping services that are subject to the sustainability assurance engagement. We believe this is an impact of the overly broad definition of sustainability information as explained in response to question 3.

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

Overall response: No, not at this time.

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)?

Overall response: No.

Detailed comments: Refer to our concerns and objections related to the PIE requirements as discussed in response to question 9. In addition, given that independence requirements for sustainability assurance engagements are intended to be equivalent to those for financial

statement audits, considering the audit fees together with the sustainability assurance fees (regardless of whether the reporting is integrated) in relation to all other fees in order to identify and evaluate threats would be more appropriate. In other words, when a practitioner complies with all other independence requirements with respect to each engagement, it is not clear as to what additional threats need to be addressed by comparing the engagement fees of each engagement against the others.

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?

Overall response: No comment.

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

Overall response: No comment.

Sustainability Reporting

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?

Detailed comments: We do not believe IESBA should expand the scope of the code to all preparers of sustainability information for the reasons outlined in the “IESBAs issuance of profession-agnostic standards is not in the public interest” section including its subsections “The clarity of IESBA standards will be undermined” and “The public trust will be eroded”.

We will likely have more views after additional details on this new work stream are shared.

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?

Overall response: No.

Detailed comment: Given the immaturity of this area, how broadly sustainability information is defined and the lack of clarity around the value chain, we are concerned that these revisions could have unintended consequences. In addition, we have not had an opportunity to consider whether the proposals could have any unintended consequences when the standards issued by the International Sustainability Standards Board are applied.

Proposed Revisions to the Extant Code

<p>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:</p> <ul style="list-style-type: none"> (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?
<p>Overall response: No. See our response to question 21.</p>
<p>23. Are there any other matters you would like to raise concerning the proposals in chapter 4 of the ED?</p>
<p>Overall response: No.</p>

Effective Date

<p>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?</p>
<p>Overall response: We are not able to answer this question definitively without knowing the effective date for ISSA 5000.</p> <p>Detailed comments: We believe that aligning the effective date with ISSA 5000 in theory is appropriate, but for the reasons outlined in “The proposed IESSA is not in the public interest” and “Due process” sections of this letter, IESBA should not be pressured to approve the IESSA until they are clear, consistent, and operable with ISSA 5000 and do not undermine the public trust in PAs.</p> <p>Considering the operational changes needed by PAs, and even more so for non-PAs, a significant period of time will be necessary to implement.</p>

We appreciate your consideration of these comments and welcome the opportunity to discuss these issues further. If you have any questions, please contact Toni Lee-Andrews, Director – AICPA Professional Ethics Division at Toni.LeeAndrews@aicpa-cima.com or Ellen Gorla, Associate Director – AICPA Global Professional Ethics at Ellen.Gorla@aicpa-cima.com.

Sincerely,



Anna P. Dourdourekas, Chair
Professional Ethics Executive Committee

cc: Toni Lee-Andrews, CPA, PFS, CGMA, Director – Professional Ethics