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10 May 2024

Submitted via the IESBA website using link provided in Explanatory Memorandum

Dear Mr Siong,

Subject: Response to the IESBA Exposure Draft: International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and other revisions to the Code relating to Sustainability Assurance and Reporting

Chartered Accountants Ireland ("the Institute") is a membership body representing over 33,000 professional accountants in over 90 countries throughout the globe, and educating 7,000 students. Our role is to educate, represent and support our members and students, to promote high professional and ethical standards in the accounting profession, and actions that protect the public interest. In addition, the Institute has various regulatory obligations under legislation in Ireland and the United Kingdom. We are a member of the International Federation of Accountants (IFAC), our members are regulated and required to comply with our Code of Ethics which adopts the Code of Ethics for Professional Accountants (the "Code") developed by the International Ethics Standards Board for Accountants (IESBA).

Our response to the proposals, set out in full in appendix I, includes feedback from some of our members who work in practice (PAIPs and SAPs) and industry (PAIBs), and considering the IESBA request for general comments, this includes, amongst others, small and medium-sized entities (SMEs) and small and medium-sized practices (SMPs). Included in our response are perspectives from members working as sustainability assurance providers on ISAE 3000 and other assurance standard reports, sustainability reporting experts, and members with sustainability roles and responsibilities in businesses. As a Professional Accountancy Body with a regulatory oversight function, including audit supervision, our response also includes considerations from an enforcement perspective.

We commend the IESBA for the significant work undertaken to update the extant Code, and the development of profession-agnostics ethical standards and guidance as a necessary response to market needs and expectations and to protect the public interest. Our detailed response outlines the areas we support, but also those we do not fully support and where we have concerns. We have provided recommendations and where possible suggest wording to alleviate some concerns, but there are others where further clarity is required.

We hope the IESBA finds our feedback helpful, and if you have any questions or would like to discuss any of the points we have raised, please do not hesitate to contact me at niall.fitzgerald@charteredaccountants.ie.

Sincerely,

Níall Fitzgerald FCA
Head of Ethics and Governance

Appendix I – Response to request for specific comments

Sustainability Assurance

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 the Explanatory Memorandum]

- For the most part, the provisions in the proposed IESSA are mostly equivalent to the ethics and independence standards for audit engagements in the extant Code. However, the proposed requirements relating to value chain entities are a significant departure from independence requirements for audits, which require independence from audit clients, not their suppliers or other value chain actors. Please see our response to question 13 in this regard.
- The equivalence between the IESSA proposals and the ethics and independence standards for audit engagements merit the categorisation of sustainability assurance engagements as audit-related services, rather than non-audit services, a matter we raise further in our response to questions 15 and 17 of the consultation.
- While the proposed IESSA is mostly equivalent to the ethics and independence standards for audit engagements in the extant Code, there are additional requirements applying only to professional accountants (PAs), such as requirements to comply with Parts 1 to 4B of the Code that are also relevant to sustainability assurance engagements. Other sustainability assurance providers, i.e. non-professional accountants (non-PAs), are only encouraged to apply these parts of the extant Code, meaning full equivalence is not achieved. See our response to question 4 of the consultation in this regard.
- As highlighted in our response to question 2, and in our response to the IESBA consultation on Using the Work of an External Expert, while the ethics and independence standard proposals in the IESSA are mostly equivalent to those required for audit engagements, the enforceability and oversight of adherence to the IESSA for non-PAs is not equivalent to the highly regulated oversight framework PAs are subject to. See our response to question 2 of the consultation in this regard.

(b) Profession-agnostic and framework-neutral? [See paragraphs 21 and 22 of the Explanatory Memorandum]

- We believe the IESSA proposals are largely profession-agnostic. However, we have significant concerns regarding the rate of voluntary adoption or level of regulatory enforcement of Part 5 of the Code that will be undertaken by non-PAs providing sustainability assurance services.

- Our key concerns are outlined in our response to question 2 of the consultation. In addition, while we acknowledge the IESBA position regarding use of similar language and terminologies that apply to audits of financial statements, outlined in paragraph 20 of the Explanatory Memorandum, we are concerned that a combination of unfamiliarity with the language and terminologies amongst non-PA sustainability assurance providers, and unfamiliarity with the systems and processes required to implement and ensure adherence to the requirements of the Code, will discourage voluntary adoption of the IESSA proposals.

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 the Explanatory Memorandum]

- We support the development of profession-agnostics ethical standards and guidance as a necessary response to market needs and expectations and to protect the public interest. However, we recommend the IESBA assesses whether the standards meet the characteristics of the Public Interest Framework. For example, the absence of regulatory enforcement and oversight, or requirements that ensure fit for purpose quality management systems combined with routine monitoring reviews for Sustainability Assurance Providers (SAPs) who are not part of the Accounting Profession, may give the public the inaccurate impression that all SAPs are accountable for their compliance with the ethical standards. Without an appropriate regulatory framework for SAPs who are non-Accounting Professionals, it is questionable whether the quality, implementability, enforceability, and consistent and global application characteristics of the Public Interest Framework will, in fact, be met.

- To increase the ease of use of the Code, reduce the unwieldiness of the text and ensure there is consistent understanding and application of the Code by all SAPs, there is an opportunity for the IESBA to consider simplification and alignment with the presentation and format of the proposed ISSA 5000 (which is also consistent with International Standards on Auditing), which SAPs are also likely to require familiarity with, by grouping the requirements in one sub-section, followed by the application guidance in another. Ensuring all SAPs are aware of, understand and apply the requirements of the Code is fundamental to achieve a consistent standard in upholding the public interest. The application guidance is also an important, but separate, component necessary to realise this.

Definition of Sustainability Information

3. Do you support the definition of "sustainability information" in Chapter 2 of the ED? [See paragraphs 24 to 26 of the Explanatory Memorandum]

- While the Code's definition of "sustainability information" differs from ISSA 5000, we don't believe it is currently inconsistent. However, as ISSA 5000 is currently not finalised, we would encourage the IESBA to revisit alignment on glossary terms to avoid confusing inconsistencies.

- The Code offers two definitions of sustainability information within one, without clarifying which should be applied. Sustainability information is defined in (a) and (b), with the potential that (b) could be a different definition to (a) if a law, regulation or relevant reporting or assurance framework includes a definition inconsistent with (a). The Code would be clearer if it included "or" between (a) and (b), rather than at the end of (a) (ii). It currently reads as if (b) sustainability information can be any of the three options presented. It should be clear to users that they can apply (a) or (b), but they are not expected to apply both.
- ISSA 5000, *General Requirements for Sustainability Assurance Engagements* (Paragraph 4), includes clarification that "sustainability information" is to be read as the information that is subject to the assurance engagement in instances where the assurance engagement does not cover the entirety of the sustainability information as defined by the ISSA. We recommend the IESBA consider a similar clarification, except that they, given the broader scope and use of the term within the Code, refer to information that is subject to the reporting and/or assurance engagement.

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 the Explanatory Memorandum]

- 5100.2 to 5100.2b, in the general introduction to Part 5, is ambiguous. On one hand, 5100.2 sets out that the requirements of the Code, 5100 to 5390, apply to all sustainability assurance providers (SAPs), and the International Independence Standards (IIS) apply to certain sustainability assurance engagements (see our response to question 5 below) per 5400.3a and 3b. On the other hand, 5100.2b sets out that Parts 1 to 4B of the extant Code, which currently only applies to Professional Accountants (PAs), may also apply to non-professional accountants (non-PAs) in circumstances where non-PAs provide any of professional services covered by the extant Code. 5100.2b is not a requirement, but an encouragement, and only in the instance where the non-PA is not applying ethics standards that are at least as demanding as the Code. Furthermore, 5400.16a scopes Part 4A of the extant Code in respect of the IIS that should be applied by a SAP performing an audit or review engagement for the same sustainability assurance client.
- There are several ambiguities within these requirements/encouragements that we believe pose challenges for the ethical standards complying with the Public Interest Framework (PIF), and will create inconsistent application, and consequently fail to meet a constant expectation of high ethical standards by the public and various classes of stakeholders outlined in the PIF. Examples of the issues, which we believe require resolution before implementing IESSA, include the following:
    - The consequence of these sections of the Code is that if any SAP provides any professional services, including an audit or review engagement for their sustainability assurance client, the full Code applies, or as the current wording implies by use of the word "encouraged", 'should' apply. To ensure a consistent

approach, 5100.2b should be a requirement, rather than an encouragement. We support the application of high ethical standards to professional activities performed by all SAPs for sustainability assurance clients, and don't believe it is possible to have anything less than a requirement to uphold such standards. Key characteristics of the PIF are to ensure standards have the ability of being consistently applied and globally operable across all regions, and are enforceable, through clearly stated responsibilities that make it possible to ascertain the extent to which compliance with the standards has been met.

- We are aware of the IESBA engagement with regulators and accreditation bodies to seek a formal mechanism for the oversight and enforcement of Part 5 of the Code for non-PAs. There is a significant risk that the public interest will not be consistently served until such time as these mechanisms are put in place. If there are any difficulties additionally requiring non-PAs to comply also with Parts 1 to 4B of the extant Code, then the IESBA should explore mechanisms to incorporate the relevant parts into Part 5, assuming this is the Part that will consistently apply to PAs and non-PAs.
- We support recognising alternative ethics standards that are at least as demanding as the Code. However, it is not clear what are the measures to adopt alternative ethical standards for example, publication of benchmarking, equivalence status or an interoperability index. There is a high risk to the public interest not to address the use of alternative ethical standards.
- Notwithstanding the other sections of the Code referred to above that scope in Parts 1 to 4B of the extant Code in certain circumstances, 5100.2 sets out that Part 5 of the Code applies not only to sustainability assurance engagements, but also to other professional services, audits and other review engagements performed by the SAP. This is confusing and questions why Parts 1 to 4B of the extant Code are being scoped in, with the consequence that some SAPs may believe that by applying only Part 5 of the Code they are also meeting the ethical standards contained within the extant Code. If this is not the intention, then it is not clear what "other professional services" Part 5 is addressing, and which are not covered by Part 5, but instead by Parts 1 to 4B of the extant Code. We recommend the IESBA provides further clarification of which professional services are covered by Part 5, and which are not.
- It is not clear what the distinction is between 5100.2 (a) and 5100.2 (b), as (a) refers to sustainability assurance engagements, and (b) refers to sustainability assurance engagements that are within the scope of the IIS. It is not clear what type of sustainability assurance engagement would not be subject to independence requirements. Please see also our response to question 5 regarding the lack of clarity between a sustainability assurance engagement subject to independence requirements, and an "other sustainability assurance engagement" that is not subject to independence requirements.

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 the Explanatory Memorandum]

- While we agree with the criteria in 5400.3a, we do not agree with not setting out independence standards for all SAPs for all sustainability assurance engagements, including direct engagements (as defined in the glossary).

Other sustainability assurance engagements, as referred to in 5400.3d and 3e, may be performed on elements of a client's value chain, or reporting boundary, and may be presented as evidence for the purposes of a sustainability assurance engagement. While we acknowledge the IESBA plans to consider scoping other sustainability assurance engagements into Part 5 later, we are concerned in the interim period the public interest is not being fully protected due to risk of inconsistent application of high ethical standards across all sustainability assurance engagements. The public may not appreciate or understand the nuance between sustainability assurance engagements, which, assuming oversight and application of Part 5 of the Code to all SAPs, will be in in accordance with high ethical standards, and "Other Sustainability Assurance Engagements", for which only Professional Accountants will be accountable to regulatory authorities for ensuring compliance with high ethical standards set out in Part 4B of the extant Code.

Structure of Part 5

6. Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of the Explanatory Memorandum]

- We understand the basis for and support the inclusion of Section 5270. However, we do not fully agree with the decision to focus on only these aspects of a SAP's relationship with their firm. There are other aspects of a SAP's relationship with their firm, addressed in the Part 2 of the extant Code, that, unless addressed in Part 5, might also compromise the performance of sustainability assurance engagements and consequently impair the public trust in them. Examples of these include issues such as communicating with those charged with governance in the firm (200), preparation and presentation of information between the SAP and their employing firm (220) and acting with sufficient expertise within the employing firm (230).

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 the Explanatory Memorandum]

- Except for the following observations and recommendations, we support the proposed amendments to Sections 360.18a to 360.18a A2, Responding to Non-compliance with Laws and Regulations, applying to PAIPs:
    - R360.18a is only appropriate in the context of a professional accountant acting as an External Auditor for the client. We recommend including this clarification within the requirement.
    - We believe R360.18a should be more assertive in requiring the SAP's default position to be to communicate, unless there are relevant factors that would prohibit such communication or make it impractical to do so. The requirement should also be extended to require the PAIP, in the instances where the decision is not to communicate, to document their consideration of relevant factors in this regard.

- Regarding 360.18a A1, sustainability assurance engagements will initially be with the objective of providing limited assurance, and at a future date requirements to provide reasonable assurance will apply. We recommend including the PA's consideration of the scope of the sustainability assurance engagement, for example whether it is to provide limited or reasonable assurance, in the list of factors to consider.
- Regarding the factor, included in 360.18a A1, "Whether management or those charged with governance have already informed the client's sustainability assurance practitioner about the matter", we recommend including, immediately following this, 'and there is evidence to support this'.
- The clarity of 360.18a A2 could be improved, reducing risk of misinterpretation, by referring instead to Sustainability Engagement Leader. See our response to question 19 regarding the recommendation to improve the definition of "Engagement Leader" in the glossary.
- Regarding 360.18a A2, we recommend including that communicating the matter to the client's SAP does not mitigate or absolve the professional accountant of any other requirement within this Code, nor of any other professional or legal obligation they may have in relation to the matter communicated.

- Except for the following observations and recommendations, we support the proposals for Sections 5360.18a to 5360.18a A2, Responding to Non-compliance with Laws and Regulations, applying to SAPs:
  - We believe 5360.18a should be more assertive in requiring the SAP's default position to be to communicate, unless there are relevant factors that would prohibit such communication or make it impractical to do so. The requirement should also be extended to require the SAP, in the instances where the decision is not to communicate, to document their consideration of relevant factors in this regard.
  - Regarding the factor, included in 5360.18a A1, "Whether management or those charged with governance have already informed the client's sustainability assurance practitioner about the matter", we recommend including, immediately following this, 'and there is evidence to support this'.
  - Regarding 5360.18a A2, we recommend including that communicating the matter to the client's external auditor does not mitigate or absolve the SAP of any other requirement within this Code, nor of any other professional or legal obligation they may have in relation to the matter communicated.
  - We believe there is merit in extending a requirement to consider communication between the External Auditor and the SAP in circumstances beyond communicating matters relating to non-compliance with laws and regulations. Please see our response to question 19 in this regard.

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) [See paragraph 68 of the Explanatory Memorandum]

- Except for the following observations and recommendations, we support the proposed amendments to Section 260, Responding to Non-compliance with Laws and Regulations, applying to PAIBs:

- We note the scope of non-compliance with laws and regulations, described in the glossary and 260.5 A1, extends only to parties within the PAIB's employing organisation. A PAIB with responsibilities related to working with sustainability information may encounter examples of non-compliance with laws and regulations with parties outside of their employing organisation, e.g. entities in the value chain. We recommend the IESBA include additional application guidance for the PAIB to consider in such circumstances, for example, to discuss the matter with their direct report for the assignment and/or management and, if appropriate, those charged with governance, or to engage with the governance mechanisms put in place by the employing organisation for reporting concerns.
- Regarding R260.15, sustainability assurance engagements will initially be with the objective of providing limited assurance, and at a future date requirements to provide reasonable assurance will apply. We recommend including the PA's consideration of the scope of the sustainability assurance engagement, for example to provide limited or reasonable assurance, within the guidance that follows the requirement.
- Regarding R260.15, we recommend the IESBA includes additional application guidance following this requirement to address circumstances where the senior PAIB may not be authorised to engage directly with the external auditor or SAP on such matters. The guidance could highlight the PAIB's first duty, in such circumstances, is to report the matter internally to the appropriate line manager, or individual charged with responsibility for engaging with the external auditor or SAP, or the relevant governance mechanism, e.g. Audit Committee. In circumstances where this is not possible, the PA should consider the organisation's internal policies and procedures or, where appropriate, any whistleblowing protocols.

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? [See paragraphs 80 to 85 of the Explanatory Memorandum]

- We support the application of the revised definition of PIE, recently finalised by the IESBA, in the context of audits of financial statements, to be used for sustainability assurance engagements. We also support section 5400.13a regarding the voluntary treatment of an entity as a PIE.

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 the Explanatory Memorandum]

(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?

- We support addressing group sustainability assurance engagements, and to ensure high standards of ethics that protect the public interest are applied in these engagements.
- As the sustainability assurance landscape is evolving, it is difficult at this early stage to anticipate all practical issues or challenges. However, the following come to mind:
  - Performing assurance work over sustainability information will involve some similar, but also many different, procedures to assurance work over financial information. While it currently makes sense to base the requirements on existing group audit requirements per ISA 600(R), *Special Considerations Audits of Group Financial Statements (Including the Work of Component Auditors),* and Section 405, *Group Audits*, of the extant Code, it will be necessary to revisit Section 5405 should there be any further developments for groups in the aforementioned requirements or in the proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements*.
  - Practical ethical challenges may arise in a group sustainability assurance engagement relating to ensuring a consistent basis for assessing independence and objectivity of group or component SAP. This may arise because of different approaches to considering the value chain of group entities, whether group or component SAP is an AP (in which case the extant Code also applies) or a non-AP (in which case only Part 5 may apply and an inconsistent approach to applying the extant Code (see our response to question 4).

(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 the Explanatory Memorandum]

- We support proposals in (i) and (ii) above.

(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")?

- Additional guidance would be helpful to ensure more consistent application of the definition of "Group" and to clarify that it relates to group entities only, and not entities that form part of a group or a component entity's value chain activities.
- Regarding the term "Group sustainability assurance client", further clarity is required on the meaning of "any other components at which assurance work is performed". It is not clear what type of assurance work the term is referring to, and it is unclear what other components, other than the group's related entities (which includes

components per the definition of "component" in the glossary (the alternating terminology increases confusion)), would constitute a group.

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 the Explanatory Memorandum]

- The term "Another Practitioner" is defined as relating only to assurance work relevant to a sustainability assurance engagement. To ensure a consistent understanding, we recommend including the clarification that this does not include the work of an External Expert, whose work the SAP will be able to direct and review.
- ISA 600(R), Special Considerations—Audits of Group Financial Statements (including the work of component auditors), provides guidance on actions to take in instances where a group auditor is unable to confirm compliance with the relevant ethical requirements. To ensure a consistent approach by all SAPs, it would be useful for Section 5406 to include similar considerations in the event this challenge arises on a group sustainability assurance engagement.
- There is potential overlap between Section 5406, Another Practitioner Involved in a Sustainability Assurance Engagement for a Single Entity or Group, and Section 5407, Independence Considerations Relating to Assurance Work at, or with respect to, a Value Chain Entity, in instances where Another Practitioner has performed assurance work on sustainability information of a Value Chain Entity to be relied upon by the Group SAP. As the glossary term for "Another Practitioner" is broad, they may or may not be a SAP. We recommend the IESBA reviews the requirements of 5407.4, 5407.5, 5407.6, and 5700 for any conflicts and consistency with requirements of Section 5406.

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 the Explanatory Memorandum]

- We support the proposed definition of "value chain" and consider it appropriate to apply the definition, description, or how it is otherwise specified in the applicable sustainability reporting framework, to the context of the requirements set out in the Code.
- We draw attention to our response to question 19, regarding inconsistent use of terminology including "sustainability reporting framework" per this definition, and "general purpose sustainability reporting framework" as part of the definition of "General Purpose Framework" included in the glossary.

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 the Explanatory Memorandum]

- We believe the provisions contained in Section 5407 are inoperable and do not support them as they are currently presented. For example:
    - Regarding the option (a) requirement to be independent of the value chain entity in order to perform the assurance work at the value chain entity:
        - The assurance work in this instance will involve performing assurance work on the sustainability information of the value chain entity directly, rather than having to rely on the same information being provided by the sustainability assurance client. Requiring the SAP to be independent in this situation, but that same independence requirement does not apply in regard to (c) appears to suggest the SAP should place more reliance on the sustainability assurance client than on their own sustainability assurance procedures.
        - There is the additional practical consideration that when the SAP is performing assurance work on sustainability information at the value chain entity, this may require them to consider sustainability information from a further tier in the value chain, e.g. a supplier or distributor for that value chain entity. For consistency, the SAP would also need to be independent of that next tier value chain entity in the event assurance work needs to also be performed there.
        - Furthermore, in order for this requirement to operate effectively in practice, a SAP firm will need to develop and implement a quality management system that can address the complexities of gathering all relevant information to assess independence in the sustainability assurance client (including group), related components, and its value chain entities. The latter may be unknown in advance of accepting the assurance engagement, and this may present a significant risk to engagement performance in terms of timeliness, cost effectiveness, and quality, especially in situations where the sustainability assurance client has hundreds, sometimes thousands, of value chain entities.
    - Regarding the option (b) requirement to ensure another SAP is independent of the value chain entity if they intend to rely on their assurance work:
        - This requirement assumes a value chain entity is either in scope for a sustainability assurance engagement (which is unlikely in most cases) or agrees to undertake it or allow the assurance work to be performed. In case of the latter, it implies the other SAP performing the assurance work on the value chain entity is doing so for the benefit of the sustainability assurance client, yet the SAP is required to be independent of the value chain entity, but not the sustainability assurance client.
        - This requirement could be more effectively addressed by reference to Section 5406, Another Practitioner Involved in a Sustainability Assurance Engagement for a Single Entity or Group. Please see our response to question 11 in that regard.

- Regarding the option (c) requirement for the SAP to be independent of the sustainability assurance client if only performing assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client, it appears to be the only viable option. However, the consequence is the SAP cannot consider appropriate safeguards that would enable them to perform objective assurance procedures within the value chain entity, a greater extent and more reliable form of assurance testing, thus resulting in potentially lower quality sustainability assurance engagement performance.

- Ensuring the SAP is independent of the sustainability assurance client is key, and we fully support this. With regard to value chain entities, we recommend the IESBA reconsiders the proposals contained in Section 5407, specifically:
  - Paragraph 104 of the Explanatory Memorandum, which highlights that "value chain entities are not part of the client's organizational boundary and are not under its control". Therefore, we challenge whether the level of independence required with respect to any sustainability assurance client's value chain entity, not under the client's control, needs to be the same level of independence required from the sustainability assurance client itself. One perspective is to regard sustainability information from the value chain entity in a similar manner to considering third party information from an audit client's supplier. A SAP should consider the reliability of this information similar to the requirement to consider the relevance and reliability of information in an audit engagement.
  - The proposed new Section 5700 includes the requirement for the sustainability assurance team to consider any interest, relationship or circumstances between it and the value chain entity and apply the threats and safeguards approach per the Code's Conceptual Framework. Extending this requirement to the SAP and the SAP firm would appear to be a practical and appropriate measure to assess reliability of any sustainability information from, or sustainability assurance work performed within, the value chain entity. See our response to question 14(b) in regard to Section 5700.

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?

- Yes, we agree, but as outlined in our response to question 13, only to the extent of assessing the firm, network firm, or member of the sustainability assurance team's objectivity in considering whether to rely on the sustainability information from the value chain entity, and the extent of any additional sustainability assurance procedures that may be required to be performed in order to rely on this sustainability information.

(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 the Explanatory Memorandum]

- We support the provisions within Section 5700, as they are reasonable and practical, more so with the application of the conceptual framework as set out in Section 5120 and the "knows or reasons to believe" principle. While this principle is a well-established concept within the extant Code, we are conscious of the agnostic intent of Part 5 of the Code, and we recommend the inclusion of application guidance explaining this principle.
- Reflecting on our response to question 13, we recommend Section 5700 becomes the exclusive section of Part 5 of the Code addressing value chain entities. Having value chain considerations in a sustainability assurance engagement in one section will make it easier for users of the Code to reference and identify the key requirements and guidance relating to these. As per our response to question 13, we do not believe the requirements of Section 5407 are operable, and by incorporating our recommendations outlined in our response, we believe Section 5700 would be the appropriate place to address objectivity and independence requirements with regard to value chain entities.
- We believe it would also be relevant to cross reference the requirements of section 5406, *Another Practitioner Involved in a Sustainability Assurance Engagement for a Single Entity or Group*, in the context of relying on the work of another SAP that performed assurance work at a value chain entity, but not under the direction of the firm seeking to rely on that work.
- Further guidance would also assist understanding and consistent application by providing examples of typical threats, some examples include: (a) value chain entity is an audit client of the SAP firm, (b) value chain entity is also in the value chain of the SAP firm, and (c) the SAP firm has provided consulting services to the value chain entity. Guidance would also provide examples of safeguards to be applied in such instances, up to and including engaging another SAP to perform assurance work within the value chain entity. Notwithstanding that they apply to sustainability assurance clients, cross references to sections 5600 to 5610 would also be a useful source of examples of safeguards that may be also appropriate to apply in certain circumstances for value chain entities. Alternatively, the IESBA may consider it more relevant to include a list of appropriate safeguards specific to circumstances involving value chain entities as part of Section 5700.

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)? [See paragraphs 115 and 116 of the Explanatory Memorandum]

- Except for the following recommendations, we agree with the provisions of Section 5600, and taking an equivalent approach to the independence standards for audit engagements:
    - We note the guidance in 5600.7 A1, that if "there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to audit sustainability assurance clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions". This is especially important in some parts of the EU, where legal provisions allow a firm to disregard sustainability assurance engagements provided in accordance with the Corporate Sustainability Reporting Directive (CSRD) in calculating the total value of non-audit services provided by that firm.
    - Linking with Section 5700, and our response to question 14, it would be useful to also include either reference to Section 5700, if it is updated with guidance for threats and safeguards regarding a sustainability assurance client's value chain entities, or examples of threats that might present if providing non-assurance services to a sustainability assurance client's value chain entities, and possible safeguards that can be taken.
    - We agree with R5600.15, R5600.17, and R5600.18. However, given the early stages of evolution of sustainability reporting and emergence of new authoritative sustainability assurance frameworks, there is a high likelihood that many SAPs are currently providing non-assurance services to potential sustainability assurance clients. While we agree all possible safeguards should be taken, up to not accepting the sustainability assurance engagement, we believe there is merit in exploring the inclusion of some transitional arrangements that can be applied to "limited assurance" sustainability assurance engagements.

16. Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of the Explanatory Memorandum]

(a) Do you agree with the coverage of such services and the provisions in the Subsections?

- Yes, we support these provisions.

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

- We have not identified any other NAS that should specifically be addressed; however, this is an area that may need to be revisited as the sustainability reporting and assurance landscape evolves and other typical NAS services become apparent.

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)? [See paragraphs 123 to 131 of the Explanatory Memorandum]

- We believe the matter of whether a sustainability assurance engagement is categorised as an audit-related or "other assurance" service is best left to the mandates of the laws and regulations in a jurisdiction. In our response to question 15 we highlighted the example in the EU where legal provisions allow a firm to disregard sustainability assurance engagements provided in accordance with the CSRD in calculating the total value of non-audit services provided by that firm.
- Notwithstanding that sustainability assurance engagements will initially seek to provide limited assurance, this will evolve eventually to provide reasonable assurance, similar to audit. Also, the strong public interest protections including robust sustainable assurance frameworks being developed along the same lines as those required to be applied to audits, as well as the similar high ethical standards, indicates that the same level of threats to independence that may arise through the provision of traditional NAS are at a lower level with regard to sustainability assurance services.
- While we support the concerns raised by the IESBA in the Explanatory Memorandum regarding potential threats to independence related to the provision of both the audit and sustainability assurance engagements by the same firm, we believe these are wide-ranging and impact all the fundamental principles, and applying the conceptual framework, per Section 5120, will be an appropriate response in most cases.

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?

- We have no further suggestions for now. However, this is an area that may have to be revisited as the sustainability reporting and assurance landscape evolves and the need for further guidance arises.

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

- We note communication between the external auditor and the SAP, and vice versa, is only considered in the context of Non-Compliance with Laws and Regulations (360 and 5360). This 'consideration' of communication between the SAP and the auditor should be extended to non-NOCLAR situations, for example, as part of 320 and 5320, Professional Appointments, subject to the client's permission and consideration of relevant factors, including the list of examples provided by 5360.18a A1.

- During our review, we identified several examples of inconsistent use of terminology, which we recommend the IESBA reviews and simplifies for greater clarification and ease of understanding. Examples we identified include:
    - The terms 'sustainability assurance practitioner (SAP') and 'practitioner' are used interchangeably throughout Part 5 of the Code. This is confusing, as the term "Practitioner" is not defined within the glossary and may be mistaken for any of the following terms in the glossary: "Another Practitioner", "Existing Practitioner", "Predecessor Practitioner", "Proposed Practitioner", and "Sustainability Assurance Practitioner". For clarity and ease of understanding, we recommend the Code does not interchange between one of these defined terms and the word 'practitioner', but instead refers to the full term, as defined.
    - The definition of "value chain" in the glossary refers to applicable "sustainability reporting framework". The latter term is not defined in the glossary, but instead the definition of "General Purpose Framework" refers to "general purpose sustainability reporting frameworks". In this case, we recommend deleting "general purpose" before "sustainability reporting frameworks".
    - The definition of "General Purpose Framework" includes a description of the use of the term "compliance framework", which may be confusing to many users of the Code, who commonly understand a compliance framework to relate to a system to ensure compliance with internal controls and risk management. We recommend the IESBA reconsiders the terminology being applied, and in doing so, whether reference to a 'principles based reporting framework' and a 'rules based reporting framework' would be simpler terminology to convey the meaning of "General Purpose Framework"?
    - The definition of "Engagement Leader", included in Chapter 2 of the ED, Proposed Revised Glossary, could be clearer by referring instead to a 'Sustainability Engagement Leader'. When the term "Engagement Leader" is used within the text of the Code, e.g. 360.18a A2, it is not immediately clear what is being referred to and a user may not be aware this is a defined term. By referring to 'Sustainability Engagement Leader' it is more apparent that this is a role separate to "Engagement Partner" and more likely relates to sustainability assurance.
    - The glossary defines "Sustainability Assurance Engagement" but does not differentiate between "Other Sustainability Assurance Engagements" referenced within 5400 in relation to the International Independence Standards. "Other" sustainability assurance engagement is open to interpretation, and unless familiar with the extant Code requirements regarding "assurance engagements other than audit and review engagements", a SAP, or preparer of sustainability information, may not make a distinction with "sustainability assurance engagement".
- Regarding paragraph 49 of the Explanatory Memorandum, we do not agree with the IESBA decision to not include ethical standards equivalent to extant section 321, Second Opinions. In the explanation provided, the

IESBA has not considered the (a) outcome of a situation in which a SAP might be asked to provide a second opinion on the application of sustainability reporting standards or principles to specific circumstances, or (b) basis for measurement for sustainability information used by an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the existing or predecessor SAP had, or is based on inadequate evidence.

- Regarding 5100.6 A3 and 5115.2 A1, we do not agree with including guidance for the SAP to consult with an appropriate regulatory or professional body, when obtaining separate legal or other expert advice may be a more appropriate step to take. A regulatory body may not be able to engage as it may compromise the objectivity and independence of its regulatory role, and it, and professional bodies, may not be sufficiently informed of all necessary and relevant information to advise the SAP on next steps.

- Regarding proposed amendments to Section 540 of the extant Code, and proposed new Section 5540 in Part 5 of the Code, we highlight a practical challenge that may present as a result of SAP rotation. The challenge arises in relation to sustainability assurance work that may be required to be performed in relation to a sustainability assurance client's targets and forward-looking information. Targets and target planning, or realigning targets, involves relying on sustainability information from an established baseline period. When a new SAP is appointed, unless the work of the previous SAP can be relied upon, entities will be faced with the baseline period sustainability information being reassured. This may be impractical and add unnecessary additional costs. We recommend the IESBA considers the inclusion of a provision that allows successor SAPs the option to rely on the work of the previous SAP together with provisions requiring the previous SAP to share details of their sustainability assurance work with their successor.

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? [See paragraphs 133 to 135 of the Explanatory Memorandum]

- We support the IESBA development of Part 5 of the Code and welcome its application to all preparers of sustainability information, Professional Accountants and others, with appropriate regulatory oversight that ensures action in the public interest.

- While regulatory oversight of compliance with the Code by Professional Accountants will continue through their existing regulatory frameworks, it is not clear how this will be achieved for preparers who are not Professional Accountants (non-PAs). This creates a risk of Part 5 of the Code being applied inconsistently by non-PAs, and consequently sustainability reporting and assurance work falling short of the ethical standards necessary to meet reasonable expectations of stakeholders and to be in the public interest.

- Furthermore, Professional Accountants will incur considerable costs to ensure compliance with these ethical standards, which will put them in an unfair position unless non-PAs are subject to the same requirements. While this is not the role of the IESBA, we are supportive of its engagement and advocacy with global regulators to find an appropriate solution to ensure a level playing field that will encourage a supply of high-quality ethical preparers of sustainability information.
- The likely outcome, which is undesirable, is that adoption of the Code by non-PAs will be over time on a piecemeal basis, versus PAs who will be required to comply with the Code once put into effect by their Professional Body. This will result in a fragmented market, and we would like to see, as an interim measure, standard setters, included the IESBA, IAASB and ISSB, regulators, global accreditation bodies increase communications and awareness, and to advocate on the public interest protections offered by SAPs and preparers of sustainability information who comply with the Code, or equivalent ethical standards.

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? [See paragraph 138 of the Explanatory Memorandum]

- We agree the proposals in Chapter 4, Proposed Sustainability Reporting-Related Revisions to Parts 1 to 3 of International Code of Ethics for Professional Accountants (including International Independence Standards), further enhance and evolve the extant Code to meet new demands, are responsive to the public interest, and continue to meet the Public Interest Framework's qualitative characteristics. We refer to our response to question 2 for other concerns we have regarding other Code proposals aligning with the Public Interest Framework.

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:

(a) Proposed revisions to Section 220? [See paragraphs 139 to 141 of the Explanatory Memorandum]

- We support the revisions, with one recommendation to replace "operations" with 'activities' in 220.3 A2, as it is a broader term encompassing all sustainability activities, not just operations. For example, an organisation's operations may not capture other activities such as social initiatives the organisation engages in, e.g. making charitable donations.

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of the Explanatory Memorandum]

- Subject to the following recommendations we support the examples provided:

- Regarding section 220.4 A1, we believe it provides a narrow interpretation of greenwashing and greenhushing, as referred to in paragraph 143 of the Explanatory Memorandum. As many cases of greenwashing or greenhushing may not be deliberate intentions to mislead others, we believe it would be relevant to also include guidance that highlights examples of preparing or presenting information in a manner that misrepresents the situation or circumstances. This may involve failing to apply an inquiring mindset to a question or consider the completeness of the information, including unverified data or data from an untrusted source, applying inappropriate or incomparable comparisons, etc.
- Regarding section 220.5 A1, a further example to consider relating to forward-looking information is using an inappropriate or unsubstantiated baseline to assess progress against targets, e.g. climate-related goals, and remaining gaps.
- A further threat, especially for SMEs, is the challenge of conflicts of interest arising within a small team, where an individual who is tasked with writing a particular sustainability assessment methodology for the business is also tasked with evaluating this methodology and reporting the organisation's actions taken or remaining actions necessary to achieve a particular outcome.

(c) Other proposed revisions? [See paragraph 155 of the Explanatory Memorandum]

- Regarding 200.6 A1 (b), an additional example of a self-review threat that is specific to sustainability could be: A professional accountant performing a taxonomy alignment assessment to a sustainability reporting standard after writing the business case for a capital project, part of which related to the project aligning to that standard.

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

- We have no other matters that we would like to raise now. However, this is an area that may need to be revisited as the sustainability reporting and assurance landscape evolves and further matters arise.

Effective Date

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?

- We understand the IESBA intention to align the effective date of the IESSA with the effective date of ISSA 5000, *general requirements for sustainability assurance engagements*. However, we have the following concerns:
    - We fully support the work of IESBA to date in preparing these proposals. However, we believe further work and refinements are necessary to address key concerns raised through the consultation process, and to ensure the Code fully aligns with the Public Interest Framework. We would not be in favour of aligning

with the effective date of ISSA 5000 at the expense of ensuring a high quality, implementable Code. We are very happy to provide whatever support we can to assist the IESBA in achieving this.

- ISSA 5000 is still in draft stage, and IAASB is currently working to finalise these proposals. In several parts of our response, we recommended ensuring, where possible, alignment with the terms and relevant requirements of ISSA 5000, and relevant international auditing standards. We recommend at least waiting until ISSA 5000 is finalised before assessing the appropriate effective date of the IESSA.
- Even when the effective date of ISSA 5000 passes, it will be adopted over various timeframes by different jurisdictions. Already some jurisdictions, such as Ireland, have indicated they will be initially adopting ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, as a sustainability assurance framework. Mandatory sustainability reporting frameworks and sustainability assurance requirements are coming into effect in many jurisdictions, e.g. EU Member States, sooner that ISSA 5000 will be finalised. Therefore, alignment with the effective date of ISSA 5000 is an ideal ambition, but not entirely necessary.
- Once the IESBA finalises the IESSA proposals, adequate time will need to be allowed for adoption within various jurisdictions by regulatory authorities, accreditation bodies, etc. In addition, adequate time would be needed to allow for translation into other languages, training, and for SAP firms to update or implement effective quality management systems to ensure compliance with the ethical standards. Given the agnostic nature of Part 5 of the Code, and the stakeholder group that will be new to the IESBA Code, we believe the timeframe required to achieve all this would be significantly longer than that allowed for previous updates to the Code.
- We would be supportive of an effective date that considers our concerns above, and we would also be supportive of any effective date allowing for early adoption.