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Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, New York 10017 USA

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

Dear Mr. Siong:

Deloitte Touche Tohmatsu Limited ("Deloitte Global") appreciates the opportunity to provide comments on the exposure draft "Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting" (the "ED" or the "proposed standard" or the "IESSA") issued in January 2024 by the International Ethics Standards Board for Accountants (the "IESBA" or "Board").

Deloitte Global supports the Board's aim to enhance the relevance of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the "Code") by considering its application to sustainability reporting and assurance. We agree there is a need for ethics (including independence) standards for sustainability reporting and assurance that contribute to increasing the level of trust and confidence in sustainability information. Given the increasing number of sustainability reporting frameworks and the diverse nature of sustainability assurance practitioners, it is imperative that the assurance provided is high quality, consistent and comparable. Having assurance and ethics standards that are framework-neutral and profession-agnostic are key in strengthening public trust in the overall sustainability reporting and assurance environment. To accomplish these objectives, the standards need to be practical and operable, and substantially aligned. This is crucial to encourage adoption of, and compliance with, the IESSA, in turn enhancing public trust in sustainability information by ensuring independent, high-quality engagements and consistent practices.

However, Deloitte Global has significant concerns the proposed IESSA will not achieve the Board's objective of building trust in sustainability information. The following issues, which will be discussed further in our detailed responses, will impact the application and operability as well as the adoption of the proposed IESSA and will lead to outcomes that are not in the public interest:

- The proposal to apply independence considerations to entities outside the sustainability assurance client's organization, namely value chain entities, makes the proposed standard inoperable.
- The complexity of the proposed standard and over-use of audit terms and concepts contradicts the IESBA's objective for the IESSA to be profession-agnostic and may render the proposed standard difficult for practitioners to understand and apply. This creates a risk of inconsistent application, difficulties with enforceability and/or threatens the ultimate adoption of the IESSA entirely.

- Seeking exact or substantial equivalence with the ethics and independence standards that are applicable to audit engagements in the extant Code will lead to unnecessary and unreasonable overreach in application (e.g., “related entity” concepts and the examples of non-assurance services). The provisions regarding fees also require further refinement to avoid unintended consequences.
- The lack of a corresponding finalized assurance standard to reference (i.e., the proposed assurance standard, *International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance* that is being worked on concurrently by the International Auditing and Assurance Standards Board (IAASB)) makes it difficult to understand and assess the practical application of independence requirements to sustainability assurance engagements.

Deloitte Global is of the view that the sustainability reporting and assurance ecosystem has not developed sufficiently for the introduction of such a complex and far-reaching independence standard that extends independence requirements significantly beyond those contemplated in Part 4B of the extant Code. The extant Code has evolved over the course of 20 years as the audit environment has developed, and it incorporates concepts based on an informed understanding of audit work, the requirements of the International Standards on Auditing and the expectations of practitioners obtained over time. It is likely the IESSA will continue to need to be updated and enhanced as the sustainability reporting and assurance market evolves. However, we urge the IESBA to consider a simpler initial approach to avoid creating significant barriers to adoption of the IESSA that would ultimately undermine the Board’s goal of building trust in sustainability information.

We understand that the IAASB is also working to respond to comments received on the proposed ISSA 5000, and this makes it very challenging to form a view as to the appropriateness and effectiveness of the corresponding independence and ethics standards. It is acknowledged that waiting for the finalization of ISSA 5000 would require re-exposure of this standard or a separate project in the future. However, given the importance of this standard, it is in the public interest for the Board to follow due process and solicit stakeholder feedback on any changes to the IESSA in order to produce a high-quality standard that is practical, operable and aligned with the corresponding assurance standard. As such, we urge the IESBA to continue working closely with the IAASB to ensure coordination and alignment of the IESSA and ISSA 5000.

Please find below our comments in response to the specific questions in the explanatory memorandum for the Board’s consideration.

Specific Comments

Main Objectives of the IESSA

Question 1a Do you agree that the proposals in Chapter 1 of the ED are equivalent to the ethics and independence standards for audit engagements in the extant Code?

Deloitte Global notes the proposals in Chapter 1 are substantially “equivalent” to the ethics and independence standards for audit engagements in the extant Code as the language and concepts are replicated almost exactly from Part 4A of the Code. We support robust independence standards, but Deloitte Global does not agree with the approach taken to achieve this equivalence in developing Part 5. Rather than starting with Part 4A, we believe strengthening the provisions in Part 4B of the Code would be a more effective and balanced approach, especially since not all financial statement audit terms and concepts will be applicable to the sustainability reporting and assurance ecosystem. For example, Deloitte Global has concern about:

- The reasonableness of using the same criteria to determine the “related entities” of a sustainability assurance client, when not all related entities might contribute to the sustainability information in the client’s report in the same way that a related entity’s financial information contributes to a set of financial statements (for example, an equity method investee of a sustainability assurance client). Under the Greenhouse Gas ("GHG") Protocol, entities may adopt one or two approaches for consolidating GHG data, the equity share or the control share approach, within which the entities in scope are determined by the operational boundary that may vary, for example, between wholly owned versus joint operations. Using the audit concept of “related entities” in sustainability assurance might result in the overreach of independence considerations to entities that are not included in the scope of a client's sustainability reporting. This is particularly impactful for a sustainability assurance practitioner that is not also serving as the client's financial statement auditor.

- The group sustainability assurance requirements as discussed in our response to Question 10.
- The criteria for determining whether a self-review threat exists when providing a non-assurance service to a sustainability assurance client as discussed in our responses to Questions 15 and 16.

In addition, by replicating Part 4A, the proposed IESSA lacks concepts, examples and guidance specific to sustainability assurance engagements that would enable practitioners to understand how to apply the independence requirements within the sustainability reporting and assurance environment. This will be especially important for sustainability assurance practitioners who are not accustomed to using the Code.

Lastly, we recognize the IAASB is continuing to work on ISSA 5000. In the absence of a final sustainability assurance framework, it is difficult to assess whether this approach will result in the ethics and independence standards for sustainability assurance engagements being applied in an equivalent manner to audit engagements (an objective of this project).

Deloitte Global is concerned with the ability to ensure consistent understanding and application of the proposed IESSA. This may lead to difficulties from a regulatory perspective to review, inspect, and enforce the standard. Further, it would likely create a lack of consistency that is not transparent to users of sustainability reporting.

Question 1b Do you agree that the proposals in Chapter 1 of the ED are profession-agnostic and framework-neutral?

As noted above, Deloitte Global considers that as currently drafted, the IESSA is not sufficiently grounded in sustainability reporting and assurance concepts and relies too heavily on mirroring the independence standards for financial statement audits and this detracts from the proposed standard being profession-agnostic. Furthermore, a standard that is overly complex and challenging to implement may lead to lack of adoption, or if adopted, inconsistency in application and therefore lower quality outcomes, which is not in the public interest.

Consistent application of a profession-agnostic, framework-neutral standard will require implementation guidance and application material that (1) recognizes the differences in professional experience and familiarity with the IESBA standards that may exist across sustainability assurance practitioners, thereby providing a bridge from these different knowledge bases and experience, and (2) is closely aligned with the ISSA 5000 implementation guidance and application material when released. While the IESBA has not communicated whether there is a plan to develop this material to ensure consistent implementation of the IESSA, it is critical for the IESBA to consider this as part of the overall project and the strain on staff resources before undertaking other efforts like extending the applicability of the Code to preparers of sustainability information to non-professional accountants (see Question 20). It is also critical the IESBA maintains close collaboration with the IAASB to ensure alignment of the material.

Question 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?

Deloitte Global agrees there is a need to develop independence standards that are clear, concise, operable and enforceable in order to ensure high quality, independent sustainability assurance, which is integral in building the public's trust and confidence in sustainability reporting and assurance.

Deloitte Global does not believe the proposed IESSA meets the qualitative standard-setting characteristics of clarity and useability given that it does not align with language in current and proposed sustainability assurance frameworks. To achieve consistent application and high-quality outcomes, which is in the public interest, we recommend that the language and definitions within IESSA should be consistent with ISSA 5000 and other relevant assurance standards (for example, the *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*). As currently drafted, the IESSA does not fully align with ISSA 5000, and as the IAASB continues to work on ISSA 5000, there may be further changes made to the proposed assurance standard. It is important that the IESBA closely coordinates with the IAASB to ensure any changes made to ISSA 5000 are reflected in the IESSA.

Additionally, the proposed IESSA does not meet the qualitative standard-setting characteristics of operability and enforceability especially with respect to the requirements that reach beyond those that relate to the organizational boundaries of the sustainability assurance client. It is especially difficult to understand how Sections 5407 and 5700 of the proposed standard can be implemented and consistently applied to value chain entities. See further comments in our response to Question 13.

Definition of Sustainability Information

Question 3 Do you support the definition of "sustainability information" in Chapter 2 of the ED?

Deloitte Global does not support the definition of "sustainability information" in the IESSA. We believe the definition should align with, and not be broader in scope than, the definition of "sustainability information" in ISSA 5000 for both standards to operate and be applied consistently. While we understand the IESBA's objective is for the IESSA to be framework-neutral, the Board should focus on alignment with the ISSA 5000 as a primary objective and we urge IESBA to continue to work with IAASB to do so.

Scope of Proposed IESSA in Part 5

Question 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?

Deloitte Global agrees that Part 5 should include the independence requirements that apply to both the sustainability assurance engagement and other services provided to the same sustainability assurance client. We do not agree that the same independence standards that apply to financial statement audits should be replicated in Part 5 as they are not all applicable in the same manner as in a sustainability assurance context (for example, the criteria for determining whether a self-review threat exists when providing non-assurance services to a sustainability assurance client). This is discussed further in Question 15.

Question 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?

Deloitte Global agrees with the proposed criteria in paragraph 5400.3a.

Structure of Part 5

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

Deloitte Global does not object to including Section 5270 in the proposed IESSA. It would be helpful to include examples and guidance that are specific to sustainability assurance engagements, such as what actions a sustainability assurance practitioner would take if pressured to:

- reduce the scope that is being assured in order to influence the public's perception of an entity (e.g., the risk of "greenwashing").
- accept a narrower scope than that which is established by law or regulation.
- accept a scope that differs from the recommended approach when assurance is voluntary (e.g., the entity falls short of a key performance indicator ("KPI") that is in scope of the voluntary assurance, and the entity requests that the sustainability assurance practitioner change their scope to exclude the KPI result).

NOCLAR

Question 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?**

Deloitte Global believes the provisions in Sections 360 and 5360 relating to the communication of NOCLAR matters are confusing and potentially duplicative when the audit and sustainability assurance engagement is carried out by the same firm. For example, it is not clear that where a sustainability assurance practitioner is providing a service to an audit client of the firm or network firm, the communication requirement would be captured under paragraphs R5360.31 and R5360.32 or R360.31 and R360.32. The proposed IESSA should make the distinction between the two sections clearer to ensure there is no overlap.

However, Deloitte Global has broader concerns regarding to the proposals in sections 360 and 5360 beyond the communication requirements of NOCLAR as detailed below.

Consideration of impacts to sustainability information in Section 360

In Section 360 of the extant Code, professional accountants are expected to respond to instances of non-compliance with laws and regulations that have a direct impact on the client's financial statements. The extant provisions are based on the application of the *International Standard on Auditing 250 (Revised) (ISA 250 (Revised)), Consideration of Laws and Regulations in an Audit of Financial Statements and* were specifically designed at the time to address the concerns raised by stakeholders around confidentiality issues with the NOCLAR whistleblower provisions. We question the appropriateness of simply extending the examples in Section 360 to laws and regulations that may impact the client's sustainability information. This significantly expands the professional accountant's responsibilities to disclose non-compliance with respect to these laws and places an expectation on all accountants to have a practical understanding of sustainability information to do so. Some laws and regulations proposed to be added to the extant Code under Section 360 are very broad, such as those relating to the "protection of human rights," "labor conditions and rights of employees," and "consumer rights," which may significantly expand the requirements of the section, thereby further deviating from the principles agreed by the Board at the time when Section 360 was written.

Consideration of impacts to financial information in Section 5360

Equally, Deloitte Global considers that the provisions in Section 5360 should not overly emphasize financial statement impacts, which seem contrary to the goal of having a profession-agnostic standard. Most laws and regulations included under 5360.5 A2 are not relevant examples in the context of sustainability information (e.g., "securities markets and trading," "banking and other financial products and services," and "tax and pension liabilities and payments,") and should be removed. Additionally, given Section 360 was written based on the requirements from ISA 250 (Revised), Deloitte Global believes for Section 5360 to be operable there needs to be a corresponding performance standard, similar to ISA 250 (Revised), that defines the boundaries of the sustainability assurance practitioner's responsibilities when dealing with NOCLAR situations in the context of sustainability assurance engagements.

Question 8 **Do you support expanding the scope of the extant requirement for PAIBs?**

Deloitte Global has no objection to expanding the scope of the extant requirement for PAIBs.

Determination of Public Interest Entities

Question 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?**

Deloitte Global agrees that an entity be deemed a public interest entity ("PIE") for the purposes of the sustainability assurance engagement if it has been determined as such for the purposes of the audit of its financial statements, where the financial statement reporting and sustainability reporting of the entity are integrated. It may otherwise be confusing to stakeholders to have the same entity being treated differently in the same report. This will require greater coordination when the sustainability assurance practitioner and the financial statement auditor are from different firms and application material for the sustainability assurance practitioner in this area would be useful.

Group Sustainability Assurance Engagements

Question 10 **The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements.**

a. **Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?**
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?**
    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")?**

Deloitte Global notes a finalized assurance standard that addresses group sustainability assurance engagements does not currently exist. Having such a standard is essential for determining the corresponding independence requirements. The approach taken in the IESSA to simply replicate the independence requirements for group audits for group sustainability assurance may not be appropriate or comparable in the context of group sustainability assurance. Therefore, Deloitte Global does not support including group sustainability assurance concepts in this initial version of the IESSA until there is a corresponding finalized assurance standard for group sustainability assurance engagements from the IAASB. This would give stakeholders the opportunity to consider the proposed independence requirements in light of that standard and would be consistent with the approach taken by the IESBA with respect to group audit engagements where the independence requirements for group audits were added to the Code only after the *International Standard on Auditing 600 (Revised)* was issued.

Using the Work of Another Practitioner

Question 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?**

Section 5406 requires the firm to request a confirmation of compliance with the relevant ethics and independence requirements from the other practitioner but provides no basis on which the sustainability assurance practitioner can compel such a confirmation from a practitioner when they are not able to direct, supervise or review that practitioner's work. Deloitte Global questions the value of including a potentially inoperable requirement in the proposed standard.

The section also provides no guidance on the actions the sustainability assurance practitioner should take to assess whether it can use the work of the other practitioner for the sustainability assurance engagement if the other practitioner does not provide the confirmation. Such assessment is assumed to be undertaken in accordance with an applicable sustainability assurance standard, but this concept does not exist in an assurance standard when the sustainability assurance practitioner cannot direct, supervise or review the work of the other practitioner. Additionally, it implies a sustainability assurance practitioner cannot use the work of the other practitioner at all if they have not been able to obtain a confirmation, which appears to be crossing over into what should be set forth in the assurance standards, not the ethical standards. We urge the IESBA to coordinate with the IAASB to address the requirements of using another practitioner who is not under the sustainability assurance provider's direction, supervision and review to ensure the interoperability of the two standards.

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

Question 12 Do you support the proposed definition of "value chain" in the context of sustainability assurance engagements?

Deloitte Global notes the definition of "value chain" in the IESSA refers to the definition and description of value chain as specified in the applicable sustainability reporting framework under which that the entity is reporting. This supports the IESBA's aim of developing a proposed standard that is framework-neutral.

However, the IESSA proposes independence requirements that will be applicable to "value chain entities," but this term is not defined. In addition to our significant concern with this conceptually as explained below, the lack of a definition makes it unclear how the sustainability assurance practitioner will apply these independence requirements in practice or assess the impact especially when using the work of another practitioner. This lack of clarity will cause variations in understanding, application and compliance, which is not in the public interest. If the IESBA retains this concept, a separate definition for "value chain entity" that clearly identifies which entities within the value chain would be relevant to the evaluation of independence is critical.

Question 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?

Deloitte Global does not support extending independence requirements to an assurance client's value chain entities. Requiring independence beyond the organizational boundary of the sustainability assurance client to an entity's value chain entities would, in our view, render the IESSA inoperable in the context of a large sustainability assurance engagement, particularly for large national and multinational groups, some of which are likely to have hundreds or thousands of value chain entities. This would give rise to substantial implementation challenges, for example:

- A single value chain entity may be involved in many entities' value chains (e.g., an electricity provider). Requiring each entity's sustainability assurance practitioner to consider their independence with respect to that value chain entity may severely restrict the value chain entity's choice of provider for non-assurance services, especially when it relates to the generation of sustainability information. High quality information is critical for sustainability reporting and assurance upon which the public can confidently rely. Having overly burdensome independence requirements would undermine the sustainability reporting and assurance ecosystem.

- The lack of a finalized assurance standard that sets clear requirements on the assurance procedures expected with respect to value chain entities impedes the ability to apply and consistently implement an operable independence framework for sustainability assurance on value chain entities. In addition, the three scenarios outlined in paragraph 5407.2 A1 have no grounding in current assurance standards and therefore have no basis in how sustainability information would be collected, reported or assured. As noted above, it will be important for stakeholders to re-assess proposed Section 5407 once ISSA 5000 is finalized to be able to provide feedback on whether the IESSA is operable, at a minimum, with the corresponding assurance standard.

- Sustainability assurance clients do not control or influence value chain entities and there is no legal right to demand information from a third party outside of the client's organizational structure, such as information that may be required to assess independence, when performing assurance at the sustainability assurance client. Equally, there is no ability to challenge whether relevant information is missing from a value chain entity.

- Even if sustainability information can be obtained or is shared freely, the sheer number of potential value chain entities in a multinational organization (e.g., one multinational has advised they have over 700,000 entities in their value chain) would make the proposed IESSA unworkable if the entity was to obtain assurance over even a fraction of the value chain entity's sustainability information included in the sustainability report. Such a far-reaching standard will present significant challenges in identifying, monitoring and complying with the independence requirements with respect to value chain entities.

For the reasons stated in our response to Question 11, we also do not support the requirements to obtain confirmations of compliance with the independence requirements from other practitioners performing assurance work at value chain entities.

Question 14 **Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:**

a. Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm's independence?

b. If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide?

Deloitte Global does not agree with the premise in Section 5700 that if a sustainability assurance practitioner uses the work of another practitioner who *separately* performs assurance work at the value chain entity, the sustainability assurance practitioner will need to assess any interests, relationships or circumstances involving the value chain entity that may be relevant to their own independence (based on a "knows or has reason to believe" assessment). This fails to recognize a separate sustainability assurance practitioner already serves as an effective safeguard that should preclude the need to make this assessment. The current approach in Part 4B, which requires independence with respect to the "assurance client," is a more appropriate approach.

If this section remains in the IESSA, we urge the Board to consider further guidance for practitioners to understand how to apply the provisions, and if threats are identified, how the practitioner is expected to apply safeguards as these have not been provided in the IESSA. We also suggest including Section 5700 within Section 5407 rather than as a standalone section.

Providing NAS to Sustainability Assurance Clients

Question 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)?**

Self-review threat prohibition

Deloitte Global agrees with the premise in Section 5600 that sustainability assurance providers should apply the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to sustainability assurance clients. Importantly, we value the basis in determining the permissibility of a service to a sustainability assurance client is largely dependent on whether the service *might* affect the sustainability information on which a firm expresses an opinion.

Deloitte Global notes this differs from Section 600 in Part 4A, where there are some services that are not permissible for a PIE given the presumed existence of a self-review threat (e.g., accounting and bookkeeping services). We believe this created an unintended consequence during IESBA's non-assurance services project. Even with the exception provided in paragraph R600.27, those prohibitions for listed entity audit clients create prohibitions for non-PIE audit clients in the broader group given the definition of a listed audit client includes all related entities including non-PIE upstream and sister entities. For example, accounting and bookkeeping services for a non-PIE sister entity of a PIE audit client would not be permissible, even if the level of self-review threat for that non-PIE audit client is at an acceptable level. The provisions under Section 5600 remove this issue for sustainability assurance clients as it allows the sustainability assurance practitioner to assess whether a self-review threat *might* exist instead of presuming that a self-review threat is always created for certain services. We suggest that conforming amendments be made to Section 600 to state the services are prohibited if they *might* create a self-review threat. Alternatively, paragraph R600.27 could be revised to specify that the provision of services to upstream and sister entities is only prohibited if the service might create a self-review threat with respect to the financial statements of the PIE audit client on which the firm will express an opinion.

Evaluation of self-review threat

Deloitte Global suggests that paragraph R5600.15 be clarified to ensure consistent interpretation of the boundary for evaluating the risk of a self-review threat. In a financial statement audit engagement, the subject matter information encompasses the accounting records, the internal controls over financial reporting and the financial statements. In mirroring this concept from Part 4A, it appears that the evaluation considers whether the service impacts the records underlying *any* sustainability information or *any* internal controls over sustainability reporting which may be too broad in the context of the sustainability assurance engagement. Part 4B limits the determination of the risk of a self-review threat to the subject matter information which subsequently becomes the subject matter information of an assurance engagement (paragraph 950.11 A1), which is more appropriate for evaluating non-assurance services under Part 5. We consider a self-review threat will only exist if there is a risk that the results of the service will form part of or affect:

1. the records underlying the sustainability information *on which the firm will express an opinion;*
2. the internal controls over sustainability reporting *on which the firm will express an opinion,* or;
3. the sustainability information on which the firm will express an opinion.

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

Deloitte Global agrees that Part 5 should include the independence requirements that apply to both the sustainability assurance engagement and other services provided to the same sustainability assurance client.

However, as discussed in Question 15 the determination of a self-review threat in the provision of a non-assurance service to a sustainability assurance client should be limited to whether the service affects the subject matter information which subsequently becomes the subject matter information of a sustainability assurance engagement. As noted previously, the proposed IESSA would benefit from less mirroring of Part 4A and include more relevant examples and guidance specific to sustainability assurance engagements, such as examples and guidance as to the type of non-assurance services that may prevent the sustainability assurance practitioner from performing assurance over the subject matter information. There are also various categories of non-assurance services that may create threats in the context of an audit that do not in the context of a sustainability assurance engagement (such as the preparation of tax returns) and should not be included in the subsection.

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

Question 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)?**

Deloitte Global does not agree with the provisions relating to fees for the audit and sustainability assurance engagements and we have the following specific areas of concern:

The proportion of fees for the audit and sustainability assurance engagements

If sustainability assurance is to be treated for independence and ethics purposes as equivalent to a financial statement audit, then the fees should also be treated equivalently. Deloitte Global urges the IESBA to reconsider the notion that the proportion of fees for the audit engagement compared to the sustainability assurance engagement may affect the firm's independence when a firm is providing both services. This premise challenges the reality of increasing integration between financial reporting and sustainability reporting, where both the audit and sustainability assurance are performed in accordance with equivalent independence standards. It is illogical to imply the threats to independence resulting from the auditor performing sustainability assurance work at an audit client are the same as the threats from providing non-assurance services.

We encourage the IESBA to consider how other standard-setters treat the proportion of fees for audit and sustainability assurance engagements and its impact on a practitioner's independence. For example, Article 4 of the *Regulation (EU) 537/2014* excludes sustainability assurance fees from the fee cap for non-audit services, thereby recognizing that such fees do not create a self-interest threat when the sustainability assurance engagement is performed by the statutory auditor.

We also suggest that this subsection be re-titled to "Total Fees – Proportion of Fees for Services Other than Sustainability Assurance and Audit to Sustainability Assurance and Audit Fees" and to consider fees for audit, sustainability assurance and non-assurance fees, at a minimum, as separate categories. Conforming amendments should also be made to paragraphs 410.11 A1 to 410.11 A3.

Transparency of information regarding fees for sustainability assurance clients that are PIEs

The provisions in paragraphs R5410.23 and R5410.25 regarding the communication and disclosure of fees to those charged with governance ("TCWG") and in paragraph R5410.31 as it relates to public disclosure of fees for a sustainability assurance client that is a PIE overlap with the extant Code. This overlap makes the required fee disclosures confusing and the requirements inconsistent if the firm performs both the financial statement audit and sustainability assurance engagement.

For example, there is no definition of "other services" in the proposed IESSA, so these provisions could require the firm to include the fees for the audit of financial statements in the fee disclosure for all other services if the firm performs both the audit and sustainability assurance engagements. Part 4A would require the firm to communicate the audit fee to TCWG (paragraph R410.23) and separately, fees for all other services (paragraph R410.25), which would include the sustainability assurance engagement fee if the firm was providing both the audit and sustainability assurance engagements. This is duplicative and will be misleading to TCWG as well as the users of the reports as the independence considerations for audit and sustainability assurance engagements compared to non-assurance engagements are fundamentally different. Under the U.S. Securities and Exchange Commission's *Enhancement and Standardization of Climate-Related Disclosures for Investors,* if a firm provides both an entity's financial statement audit and GHG emissions attestation for the same filing, when disclosing fees, the fee for the attestation engagement would be considered "Audit-Related Fees," also suggesting that such fees do not cause an independence threat to the audit. If fee disclosures are required under the IESSA, the fees from services requiring independence (audit and assurance) should be separate from the fees for non-assurance services. Conforming amendments should be made to paragraphs R410.23 to R410.27 to support the interoperability of Part 4A and Part 5.

Other Matters

Question 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?

Deloitte Global does not agree that the additional guidance from a sustainability assurance perspective in Chapter 1 of the IESSA is adequate and clear. As discussed in Question 1 and throughout this letter, Deloitte Global believes that by mirroring the requirements of Part 4A too closely, the proposed IESSA lacks the concepts, examples and guidance specific to sustainability assurance engagements that would enable practitioners to understand how to apply the independence requirements within the sustainability reporting and assurance environment. Part 5 is overly complex, too long, and relies on financial reporting concepts that are not entirely relevant to sustainability assurance engagements. The Board should consider leveraging Part 4B in the extant Code to develop and align similar assurance concepts and terms and use terminology and concepts that are relevant to sustainability for practitioners to apply in the context of sustainability assurance work.

In addition to making the IESSA more comprehensible for all users, guidance and application material should be developed that acknowledges the differing levels of professional experience among sustainability assurance practitioners and familiarity with the extant Code. In addition to the matters already noted previously, not all firms may be familiar with the International Standard on Quality Management (ISQM) 1 and may not operate a system of quality management expected in accordance with the applicable sustainability assurance standards (paragraph 5400.3f). The IESSA should include a requirement that firms undertaking sustainability assurance engagements within the scope of Part 5 must have reasonable assurance that their system of quality management allows them to meet the requirements of the IESSA, and if not, they should not accept the engagement.

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

Deloitte Global notes the long association transitional provisions for a sustainability assurance client that becomes a PIE are the same as those in Part 4A for an audit client that becomes a PIE. It is unclear how this transition would apply when a sustainability assurance practitioner has been performing a sustainability assurance engagement either under Part 4B or another ethical standard and the IESSA becomes effective. It will be important for the Board to consider giving additional transitional time in this regard when the IESSA is first implemented. Without doing so, the engagement leader might have to rotate off a sustainability assurance engagement after only two additional years (maximum). Sustainability assurance is an area where all firms are currently building capabilities and a lack of qualified engagement leaders may provide barriers to using the IESSA which could result in a negative impact on adoption.

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

Question 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?

Deloitte Global supports the IESBA's objective to strengthen the public's confidence in global sustainability assurance and reporting, but it is important for the Board to consider priorities and fully complete this project before undertaking another, especially when considering the other projects that have recently been launched. As mentioned previously, for this proposed standard to be successfully implemented the Board will need to devote considerable resources to develop materials and upskill all users of the IESSA, but particularly those who have not previously used the Code.

In considering the best way to expand the scope of the Code, it is also important to recognize the majority of the individuals involved in the preparation of sustainability information are not accountants and are unlikely to have knowledge or experience with the extant Code. This contrasts with the preparation of financial reporting, which is predominantly performed by professional accountants who have experience with the extant Code. As such, the IESBA should consider that while some who are involved in preparing sustainability information may welcome the structure and guidance of the Code, there is the potential for it to be seen as a barrier to entry for those with no connection to accountancy. As discussed throughout this letter, the Code is extremely complex even without the addition of IESSA, which may discourage firms from adopting and implementing the Code.

It will be important to be mindful of these challenges and engage in stakeholder outreach to gauge the likelihood of adoption beyond the area of sustainability assurance before allocating the resources to the project. If the decision is made to proceed, Part 2 should not be replicated with slight modification for sustainability information, but rather the standard should be truly targeted to the preparation of sustainability information with the recognition for the time it will take to develop a well-developed standard.

Question 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?**

Deloitte Global agrees that the proposals in Chapter 4 of the ED are responsive to the public interest.

Proposed Revisions to the Extant Code

Question 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?**
- **b. Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?**
- **c. Other proposed revisions?**

Deloitte Global has no additional comments on the proposed revisions to Parts 1 to 3 of the extant Code.

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

Deloitte Global has no additional comments about the proposals in Chapter 4 of the ED.

Effective Date

Question 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?**

Deloitte Global believes the timeline for the IESBA to consider comments provided by stakeholders and approve this standard is too compressed, especially considering the significant impact not only on sustainability assurance practitioners, but also on the proper functioning of the sustainability reporting ecosystem and the rest of the professional services market. Deloitte Global is concerned that this accelerated timeline will result in an independence standard that is inoperable, does not align with current or proposed assurance standards, and puts the ultimate adoption of the IESSA at risk. We urge the IESBA take the time required to ensure that stakeholder concerns have been appropriately addressed and consider delaying certain parts of proposed Part 5 until they are supported by adequately finalized, mature and complete assurance standards that can be understood and applied consistently.

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We would be pleased to discuss our comments with members of the IESBA or its Staff. If you wish to do so, please feel free to contact Mrs. Denise Canavan, Global Independence Leader at Deloitte Global, via email (decanavan@deloitte.com) or +1.203.563.2759.

Sincerely,

Deloitte Touche Tohmatsu Limited

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