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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,

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views 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"), issued by the International Ethics Standards Board for Accountants (the "IESBA" or the "Board").

With its Sustainability Project, the IESBA has undertaken a significant and important endeavor that we fully support and believe is in the public interest. Developing ethics and independence standards for use by all sustainability assurance practitioners ("SAP"), including Professional Accountants ("PA") and non-Professional Accountants ("non-PA"), is a critical step to enhancing the trustworthiness of sustainability information and the confidence users of sustainability information can have in the assurance provided by SAPs. We agree with the IESBA's premise that the ethics and independence standards relating to sustainability assurance should be equivalent to the same high standards of ethical behavior and independence that apply to audits of financial information. Given the significance and importance of the Sustainability Project, we appreciate the efforts of the IESBA to engage with the IAASB with regard to the IAASB's Exposure Draft of proposed International Standard on Sustainability Assurance 5000, *General Requirements for Sustainability Assurance Engagements and Proposed Conforming and Consequential Amendments to Other IAASB Standards* ("ED ISSA 5000"), with a view to ensuring that the standards will be consistent and interoperable. We believe this alignment continues to be critical to the effective adoption and implementation of the two standards and encourage both the IESBA and the IAASB to continue to collaboratively finalize their respective sustainability projects, and issue them concurrently.

Since Part 5 is the first standard designed to be profession-agnostic, thereby having an inherent increased risk of needing future amendments and clarifications for non-PAs, we encourage the IESBA to consider a project, beyond that of a post-implementation review, to timely monitor and identify emerging issues that present challenges to the application of the provisions of Part 5 arising from the more unique characteristics of sustainability reporting and the more complex concepts of the proposed Part 5, and rapidly address these. We specifically wish to highlight concepts such as "group," "component," "related entity," and "value chain" as being more complicated in the context of a sustainability assurance engagement. We recognize that these concepts have developed within Part 4 of the Code over time and required much consideration and deliberation in their development, and their application in the context of a sustainability assurance engagement may pose some challenges, in particular because the reporting boundaries of

sustainability information with regard to value chain entities go beyond that of the reporting boundaries of financial information.

We are generally supportive of the proposals included in the ED. Our responses to the ED's matters for comment highlight those matters we support, matters for which we have suggestions for the Board's consideration, as well as an explanation in our response to question 14 as to our view that Section 5700 is not needed.

Twenty-four specific matters were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

Main Objectives of the IESSA

1. Do you agree that the proposals in Chapter 1 of the ED are:

- (a) Equivalent to the ethics and independence standards for audit engagements in the extant Code?**
- (b) Profession-agnostic and framework-neutral?**

1.(a)

Yes, we agree that by replicating Parts 1 through 4A of the Code, with appropriate modifications that are applicable to sustainability assurance services, the IESBA's proposed Part 5 results in ethics and independence standards for sustainability assurance engagements that are equivalent to those applicable to audit engagements.

1.(b)

Yes, we agree the proposals of Part 5 are profession-agnostic and framework neutral. We are supportive of the IESBA's effort for developing profession-agnostic and framework-neutral ethics, including independence, standards for sustainability assurance engagements. We support a new Part 5 that will include, on a stand-alone basis, the relevant ethics and independence standards for sustainability assurance engagement.

While we support the proposed approach, we acknowledge that there will be practical implementation and adoption challenges to overcome, and we believe it will be critically important for the IESBA to commit to a strategic prioritization of addressing these challenges through stakeholder outreach and engagement, including with those charged with governance ("TCWG") of entities reporting their sustainability information, non-PA SAPs, local sustainability standard setters and regulators, and sustainability assurance accreditation organizations. This outreach and engagement should include a focus on helping the stakeholders understand the relevance of the proposed ethics and independence requirements and application material (e.g., education on why and when they apply); educating non-PA SAPs on the application of the provisions of Part 5 as well as the underlying conceptual framework of the Code to a sustainability assurance engagement through webinars and other non-authoritative material ("NAM"); and communicating to local standards setters, regulators and accreditation organizations on the importance of non-PAs adopting Part 5 and Part 4B.

In terms of being profession-agnostic, and recognizing that some non-PA SAPs will be structured as corporate entities rather than as firms, we note that the proposals in Part 5 include the use of the term Network Firm in relation to an SAP. It is not readily clear in all cases how the concepts of Network and Network Firm will apply to an SAP that is structured as a corporation. For example, it does not appear that a corporate SAP's sister entities would be captured as a Network Firm when element (a) of the definition of Network is not met in regard to its sister entities. Also, it would not

appear that an investor with control over or significant influence in a corporate SAP would be captured as a Network Firm when the elements of (a) and (b) of the definition of Network are not met. With the objective of being profession-agnostic, we believe Part 5 needs to take into consideration that non-PA SAPs structured as a corporation will need additional guidance to assist in understanding which of the entities within the corporate structure will be included in their Network, and therefore which of these entities will be subject to the provisions of Part 5.

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?

Having considered the qualitative characteristics to assess a standard's responsiveness to public interest under the Monitoring Group's Public Interest Framework (the "Framework"), we agree that the proposals are responsive to the public interest.

We believe a key characteristic of the Framework is "Coherence" and that standards addressing the same subject matter are not in conflict. To this end, we believe that it is in the public interest that the standards for sustainability ethics (including independence) and sustainability assurance issued by the IESBA and IAASB, respectively, are sufficiently aligned and interoperable. And in order to be fully responsive to the Framework, we believe the IESBA's ethics (including independence) standards for sustainability assurance and the IAASB's proposed ISA 5000 should be issued concurrently.

Definition of Sustainability Information

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

We agree with the proposed definition of Sustainability Information and support a broad definition so as to encompass various types of sustainability information as well as different reporting and assurance standards. We believe the discussion on the definition of Sustainability Information included in paragraphs 24 through 26 of the EM is helpful, in particular the need for the Code's definition to be broad and generic in order to be interoperable with various reporting and assurance standards, and also given the diversity in how this term is (or will be) defined in various regulations and standards, and how future cultural and legal developments might impact the type of information that is considered for purposes sustainability reporting. Therefore, we suggest that the discussion in paragraphs 24 through 26 is included in the IESBA's Basis for Conclusion.

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?

Yes, we agree with the proposed approach of developing ethics standards for all sustainability assurance engagements and any other services that the SAP provides to the same sustainability assurance client.

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?

We encourage the IESBA to further deliberate the scope of the IIS in Part 5 and have the following specific comments for the Board's consideration.

As proposed, the IIS in Part 5 would apply to assurance over information reported in accordance with a general purpose framework that is either publicly disclosed to support decision-making by investors or other stakeholders or is required to be provided in accordance with law or regulation. According to a recent global survey of largest companies reporting sustainability information¹, only 42% of companies that applied Global Reporting Initiative (GRI) Standards reported "in accordance with" GRI Standards and only 10% of companies who applied Sustainability Accounting Standards Board (SASB) Standards reported "in accordance with" SASB Standards. Twenty-nine different phrases were used to describe the application of the GRI Standards and 37 different phrases were used to describe the application of SASB Standards. Companies used terms such as "in reference," "based on," "aligned," etc. Entities may report "in reference" to GRI Standards as a transitional step because they cannot comply with all the requirements for reporting in accordance with the GRI Standards, and therefore comply with selected requirements. We believe it is clear that assurance over sustainability reporting that is in accordance with GRI or SASB Standards would be in scope of the proposed Part 5, because both GRI and SASB Standards would meet the proposed definition of a general purpose framework. And we believe that reporting "in reference" to GRI Standards as a transitional step to full compliance is of equal importance to the stakeholders as reporting that is fully in accordance with GRI Standards and thus should be in scope of the proposed Part 5. However, it is not clear whether IESBA intended for assurance over reporting that cites a general purpose framework using terms other than "in accordance with" to also be in scope of the proposed Part 5.

Given the broad range of terms used today in sustainability reporting when referring to general purpose frameworks, we recommend that IESBA clarify its intent either in the application material or in the Basis for Conclusions by providing examples of sustainability assurance engagements that would and would not be in scope of the International Independence Standards in Part 5 based on the criteria in paragraph 5400.3a. In addition, because it is common practice in various jurisdictions today to report in accordance with a general purpose framework that is supplemented by entity-developed criteria, we believe that IESBA should clarify in the definitions, application material or Basis for Conclusions that the general purpose criterion is satisfied in such situations. Finally, the IESBA should seek opportunities to engage with regulators, local standard setters, local accreditation bodies, and others to consider mechanisms that would promote requirements for the standards of Part 5 of the Code to be applicable for all sustainability assurance engagements, including those performed by non-PAs that do not meet the scope for Part 5 of the Code and are instead encouraged to comply with the provision of Part 4B.

¹ *The State of Play: Sustainability Disclosure and Assurance 2019-2022 Trends & Analysis*. (2024). International Federation of Accountants (IFAC) and the Association of International Certified Professional Accountants (the Association).

Structure of Part 5

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

Yes, we support the inclusion of proposed Section 5270 in Part 5 and believe these provisions are important in guiding SAPs, in particular those who are non-PAs, in applying the conceptual framework in such circumstances.

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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?

Yes, we support these provisions. In regard to paragraph 360.18a A1, we would suggest including as a factor whether the non-compliance or suspected non-compliance might be relevant to the SAP's sustainability assurance engagement, as not all non-compliance or suspected non-compliance might be relevant to the sustainability assurance engagement.

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

Yes, we support expanding the scope of the extant requirement for PAIBs.

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?

We acknowledge the practical difficulties that would arise if the determination of PIE status for sustainability assurance engagements followed different criteria than that used for purposes of the audit of the entity's financial statements. So, while we also recognize that stakeholders using sustainability information might focus on different characteristics in assessing whether there is an elevated degree of public interest, we agree with the IESBA's proposed approach of using the determination of a PIE for purposes of the audit of the entity's financial statement also for the sustainability assurance engagement.

We note that paragraph R400.17 of the Final Pronouncement – *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (the "PIE Revisions") is not proposed to be replicated in Part 5. Therefore, an SAP who is not also performing the audit of the entity's financial statement will need to ascertain whether or not the entity is a PIE. This generally can be ascertained through the public disclosure made in compliance with paragraph R400.20 of the PIE Revisions. However, in situations when the SAP is not also performing the audit of the entity's financial statements, we believe it would be appropriate for Part 4 to include application material for guiding the firm performing the audit of the entity's financial statements in communicating to the SAP whether the entity is being treated as a PIE, as well as any changes to the classification either due to the entity first becoming a PIE, no longer meeting one of the categories of a PIE, or voluntary PIE treatment by the firm auditing the financial statements. In the case of the firm performing the audit of the entity's financial statements making a voluntary determination to treat

the entity as a PIE, we note that paragraph 5400.13a would not require the SAP to likewise treat the entity as a PIE, but we believe it would be a matter for the SAP to consider in making their own determination and therefore the SAP should be informed.

Paragraph 5400.13a addresses the situation when a firm performing an audit of the entity's financial statements voluntarily treats the entity as a PIE. We believe it might also be possible that the SAP voluntarily decides that for purposes of the sustainability assurance the entity should be treated as a PIE even though the entity is not treated as a PIE with regard to the audit of its financial statements. This could be because the entity has environmental, social, or other factors that are deemed by the stakeholders of the sustainability information as having heightened public interest. In such situations, we believe the Part 5 should make it clear that when the SAP voluntarily applies the independence requirements applicable to a PIE to the entity for sustainability assurance purposes, it does not require the firm performing the audit of the financial statements of the entity to voluntarily apply the independence requirements applicable to a PIE for purposes of the audit of the entity's financial statements. This is especially important as the IAASB standards include specific additional requirements for the audit of listed companies and such requirements are proposed to be extended to all PIEs.

Paragraph R5400.25 will require the firm providing sustainability assurance to publicly disclose the fact that it has applied the independence requirements for PIEs in the same manner as Part 4A requires for audit engagements. We encourage the IESBA to engage in further discussion with the IAASB on developing guidance as to what an appropriate manner of disclosure would be. We also encourage the IESBA to discuss with IAASB how best to refer to the different independence provisions of Part 4B and Part 5 in the assurance reports, as this could lead to complex wording and the user of the sustainability assurance report may not understand the difference between the various independence requirements (for example, application Part 4B or part 5 of the Code, and PIE or non-PIE classification of the entity).

Group Sustainability Assurance Engagements

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

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

10.(a)

We are supportive of the IIS in Part 5 specifically addressing the independence considerations applicable to group sustainability assurance engagements.

10.(b)(i)

We are supportive of the independence provisions applicable to group sustainability assurance engagement being at the same level, and achieving the same objectives, as those applicable to group audit engagements.

10.(b)(ii)

We are supportive of 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.

10.(b)(iii)

We are supportive of the proposed defined terms in the context of group sustainability assurance engagements.

Notwithstanding our answers to 10.(a) through 10.(b), we believe it is vitally important for the IESBA and IAASB to collaboratively finalize their respective sustainability projects and issue them concurrently.

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?

Yes, we generally agree with the proposed independence provisions set out in Section 5406. However, we believe the IESBA should further clarify whether these provisions apply to assurance work carried out by another practitioner that is peripherally, but not directly, related to sustainability information. For example, it is not clear from R5406.3 and the phrase "uses the work of another practitioner for purposes of the sustainability assurance engagement" whether the requirements would apply to circumstances where another practitioner performs an assurance engagement at the sustainability assurance client over internal controls related to sustainability information (for example, performed under ISAE 3000), and the SAP intends to rely on the work of the other practitioner as evidence when designing the nature, timing and extent of sustainability assurance procedures. We recommend that the IESBA clarify whether the requirements in 5406 are intended to apply to assurance engagements performed by other practitioners on matters not directly involving sustainability information, but that are used by the SAP.

Furthermore, it is not clear what the SAP is required to do in circumstances when the other practitioner is unable to confirm that they have complied with the independence requirements relevant to the sustainability assurance engagements. The IESBA should consider discussing with the IAASB whether there is a possibility of alternative procedures or other actions that could be taken by the SAP that would allow the SAP to use the work of the other practitioner in some capacity.

Finally, in our comment letter on the ED ISSA 5000, we recommended that IAASB include a definition of “another practitioner”, which could be based on the descriptions included in paragraphs A22 and A91 of ED-ISSA 5000. We recommend that the IESBA and the IAASB collaborate to align the two definitions.

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?

Yes, we support the proposed definition of “value chain” in the context of sustainability assurance engagements.

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?

In general, we agree that independence considerations should be addressed when assurance work is performed at, or with respect to, a value chain entity. However, we believe this is one of the more complicated matters the IESBA is attempting to address in its proposals, especially since reporting and assurance frameworks are continuing to evolve. We therefore believe it would be prudent for the IESBA to consider a project to timely monitor and identify emerging issues, including those related to value chain entities, that present challenges to the application of the provisions of Part 5 arising from the evolution of various reporting frameworks, and rapidly address these.

With regard to the value chain, we have the following comments for the IESBA's consideration.

- (A) Proposed paragraph 5407.2 A1 provides examples of three actions a firm might take when it determines that assurance procedures are needed to be performed at, or with respect to, the value chain entity:
- (a) Perform the assurance work at the value chain entity;
 - (b) Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or
 - (c) Perform the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity.

The distinction between situation (a) and (c) is not clear, and may lead to an interpretation that the independence requirements are linked merely to the physical location of where the assurance work is performed. We recognize that the term “work performed at” is derived from the IAASB group audit standards and we recommend that the IESBA, in close cooperation with IAASB, consider developing additional application material to clarify the purpose of distinguishing when the work performed falls within a) versus c).

- (B) We agree with the concept required by R5407.4, which is aligned with fundamental principles of the Code; however, since the independence provisions impact an SAP's ability to obtain and use sustainability assurance evidence on value chain information, we believe this is a matter that should be discussed with and deliberated by the IAASB prior to finalizing Part 5. Specifically, further consideration is needed to determine if work performed by another SAP has to be completely disregarded or if it has some assurance evidence value in the event the

value chain SAP is unable to confirm independence under IESBA Part 5 or if the confirmation is on a different independence framework than Part 5. This will be especially important for non-PA SAPs who may have less experience in and ability to consider if and how different independence frameworks compare to Part 5.

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?

14.(a)

No, we believe that threats generally will be sufficiently safeguarded when a firm uses the work of another SAP who complies with Part 5 in performing work at a value chain entity and retains sole responsibility for the assurance report on the sustainability information of the value chain entity. We note that the Code has an established safeguard in Part 4 of using another firm outside of the network to review or re-perform audit work in order to address threats to independence. Also, paragraph 5400.32 A1 includes the concept of a predecessor firm issuing an assurance report on sustainability information as an action that would eliminate or reduce threats to independence to an acceptable level. Similarly, when using a System and Organization Controls ("SOC") report in a financial statement audit context, it is not necessary for the auditor of the user entity to consider independence with respect to the service organization.

We believe it is appropriate to apply this same concept to situations when a firm uses the work of an SAP who performs work at a value chain entity, in accordance with Part 5, and retains sole responsibility for the value chain entity's assurance report. In such situations, the firm will receive the value chain entity's sustainability information and the value chain SAP's assurance report, and the firm will have no ability to modify the information subjected to the value chain SAP's assurance report, and will accept and use the assurance report as evidence. In such a case, we believe it is appropriate to conclude that the threats to the firm's independence are at an acceptable level.

14.(b)

As noted in our response to 14.(a) above, we believe threats are at an acceptable level when the other SAP who complies with Part 5 performs the assurance work at a value chain entity and retains sole responsibility for the assurance report, and therefore do not believe Section 5700 is necessary. Also, we believe a "reasonable and informed third party" test would support that any threats are at an acceptable level. However, if the IESBA decides to pursue their proposed approach in Section 5700, we believe further guidance is required in order to be able to appropriate apply this approach and have the following comments.

- (A) We understand that Section 5700 is to be read in connection with situations described in Paragraph 5407.2 A1 (b) and R5407.4, although it is not clearly mentioned and may need further clarification for non-PAs.
- (B) We acknowledge the fact that the concept of "knows, or has reasons to believe" is not new; however, we believe it will be very difficult to implement R5700.4 in practice due to the

evolving scope of value chain entities included in the sustainability information and that clients might have changes in value chain entities throughout the year. If R5700.4 is retained, we strongly believe Section 5700 also needs to clearly recognize safeguards such as assurance work performed by another SAP that has complied with Part 5 as mentioned in our response to 14.(a) above, or a review performed by an appropriate reviewer.

- (C) Section 5700 addresses relationships or other circumstances involving value chain entities, while Section 5407 addresses independence considerations relating to assurance work at or with respect to a value chain entity. We suggest that the two sections be combined and expanded with more application material and examples.

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)?

Yes, we agree with the provisions in Section 5600.

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?

16.(a)

Yes, we agree with the coverage of services such as those described in Subsections 5601-5610.

16.(b)

We have no further suggestions of other NAS that Part 5 should specifically address in the context of sustainability assurance engagements. However, many non-PA SAPs are in firms that provide services, software and products in areas traditional PA firms do not, and we encourage the Board to undertake outreach to non-PA SAPs to understand whether a future project should develop requirements and application material in additional areas to support non-PAs in their independence evaluations.

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)?

No, we do not agree with the premise that the self-interest threat is impacted when a large proportion of fees charged by the firm or network firms to a sustainability assurance client is generated by providing audit or review services, or vice versa. We recognize that the Code includes application material designed to guide the evaluation and that paragraph 128 of the EM

states that: “The IESBA does not believe that this guidance would impede the development of the sustainability assurance market or discourage the movement towards integrated reporting.” However, we believe that the fees for sustainability assurance and financial statement audit should be considered in combination and not separately when provided by the same firm, given that the standards for ethical behavior and independence will be equivalent, and that this should be clearly recognized in Part 4A.

We agree with the proposed approach as it relates to long association and partner rotation. However, and recognizing that in a number of jurisdictions there are and will be challenges with having a sufficient number of SAPs available, we believe there needs to be transitional provisions to distinguish between a sustainability assurance engagement as per Part 5, for which R5540.7 applies, and any prior voluntary assurance engagement on sustainability information undertaken which we believe should not impact the number of years included in the time-on period for purposes of R5540.7.

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?

The extant Code was developed over time using a top-down approach in which revisions have been undertaken as subject matters and concepts have matured and the need for more and clearer requirements and application material has arisen. We recognize that the urgent need for ethics and independence standards for sustainability assurance engagements has not allowed for a similar approach in developing Part 5. We acknowledge that replicating Part 4A, which was developed to address independence threats related to the audit of financial information, as the basis for Part 5 might not meet all the needs and unique characteristics related to sustainability assurance. For example, the scope of related entities applicable for a publicly traded entity is taken from the extant Code for audit engagements and is based on financial statement concepts whereas the same scope may not be appropriate for sustainability assurance engagements, since sustainability information from some related entities (e.g., items (a), (b) or (d) of the definition of Related Entity) might fall outside the reporting boundaries of an entity’s sustainability reporting. The related entities of a publicly traded entity also adds significant complexity to maintaining an overview of clients with independence restrictions and may especially pose challenges for non-PA SAPs in adopting Part 5. Therefore, we encourage the IESBA to consider a project to timely monitor and identify emerging issues that present challenges to the application of the provisions of Part 5 and arise from the needs and unique characteristics of sustainability assurance and sustainability reporting frameworks, and rapidly address these.

We recognize that the concepts of “group” and “component” are included in the ISAs and the extant Code but are concerned that ED ISSA 5000 does not have an equivalent concept to cover group sustainability assurance engagements. We suggest that the IESBA and IAASB collaboratively address this as they finalize their respective sustainability projects.

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

The ED uses the term “opinion” in regard to a sustainability assurance engagement for both limited and reasonable assurance conclusions. We believe it is misleading and may be misunderstood as

dealing only with reasonable assurance, since the term “opinion” is used only for reasonable assurance by IAASB. We recognized that paragraph 5400.3c states that: “The International Independence Standards in Part 5 apply to both reasonable assurance and limited assurance sustainability assurance engagements. In this Part, references are made to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references mean a firm expressing a conclusion on the sustainability information.” However, we believe that there is a risk that users of Part 5, in particular non-Pas, may overlook this point and not understand the intended meaning of opinion. We believe that the word “conclusion” should be used in Part 5, as “conclusion” can be used for all assurance engagements (an opinion being a reasonable assurance conclusion).

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?

We are supportive of the IESBA’s efforts to explore the opportunity to extend the impact of the Code beyond the accountancy profession to all preparers of sustainability information as described in paragraph 135 of the EM. Further, we agree with the IESBA’s explanation and rationale in paragraph 134 of the EM that a phased approach is justified, and that more time and discussion will be required to sufficiently explore developing profession-agnostic ethics standards for sustainability reporting.

As this exploratory process continues, we recommend that any future scope expansion be clear, concise and practical and that the IESBA remains aware that any provisions extended to non-PA practitioners may be met with confusion and lack of understanding by the non-PAs, and that this could possibly inhibit effective adoption and/or result in inconsistent application of the Code. In addition, we believe the IESBA will need to develop a strategic approach to encouraging adoption of the Code by non-PAs. As such, we believe that a transition period will be required to allow for adequate preparation and implementation time by the non-PAs, and we recommend that the IESBA carefully considers the amount and type of educational, NAM, and other support that will be required to be provided to the non-PAs during that transitional period.

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?

Yes, overall, we agree that the proposals in Chapter 4 of the ED are responsive to the public interest. We find the proposed updates referencing sustainability are applicable, and the noted examples in the application material allow Parts 1 through 3 of the Code to reflect the considerations for sustainability reporting. Please refer to our responses in questions 22 and 23 with regard to observations and recommendations on the individual examples included in the application materials.

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

22.(a)

Yes, overall, we agree that the proposed revisions to Section 220 are clear and adequate. Section 220 of the extant Code contains robust standards for a professional accountant when preparing and presenting information, and the updated references provide clarity that the section 220 considerations are applicable for the preparation of sustainability reporting.

22.(b)

With regard to the application material in paragraphs 220.4 A3, 220.5 A1 and 300.7 A4a we have the following observations.

- (A) We note that references to the value chain are added as application material in both paragraphs 220.4 A3 and 300.7 A4a. While we agree that these examples highlight risks and list considerations for the preparer of sustainability reporting when relying on third party information for value chain reporting, we suggest that the IESBA also consider providing further guidance through NAM since value chain reporting is a new concept and preparers of sustainability reporting may need guidance in evaluating the adequacy of information provided by others in their value chain.
- (B) We note that the following example has been added to paragraph 220.5 A1: "Performing a materiality assessment of opportunities, risks or impacts in order to misrepresent or omit sustainability information." While we recognize that this example is phrased similar to the other examples in paragraph 220.5 A1, we suggest that it may be clearer to phrase this example as: "Selecting, omitting or obscuring opportunities, risks or impacts as part of a materiality assessment to misrepresent sustainability information," since the risk is that the preparer of the materiality assessment omits or obscures information to misrepresent the scope of reporting.

22.(c)

Yes, we agree that the other edits to Parts 1 to 3 are clear and adequate.

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

We have no additional matters to raise in addition to our responses to the questions above.



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?

Yes, we support the IESBA's proposal to align the effective date of the final provisions with the effective date of the IAASB's proposed ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Tone Maren Sakshaug (tonemaren.sakshaug1@qa.ey.com) or John Neary (john.neary1@ey.com).

Yours sincerely,

Ernst + Young Global Limited