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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 Ken,

We would like to thank you for the opportunity to provide the IESBA with our comments on *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*.

Before responding to the questions posed in the Explanatory Memorandum (hereinafter referred to as the EM) in the appendix to this letter, we would like to draw your attention to our key concerns, including four (the need for a level playing field, potential to limit unduly the availability of SAPs, Non-PA SAPs may be unable to “identify” with proposed Part 5, information relating to entities within the value chain) of which that are not all specifically addressed by specific questions:

Key Concerns

The need for a level playing field

Users of financial statements and sustainability reporting have been vocal in demanding information that is connected, comparable and reliable.

GESCHÄFTSFÜHRENDER VORSTAND:
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Various parties, including the EU Commission, have tasked the financial statement auditor with the performance of sustainability assurance engagements for a variety of reasons, of which the IESBA will be aware. The IDW firmly believes that the advantages associated with the financial statement auditor performing sustainability assurance engagement are compelling and that the auditing profession's adherence to a high standard of ethical behavior is essential in the public interest in the context of sustainability assurance. Therefore, whilst we understand that non-professional accountants may also be tasked with sustainability assurance engagements, we consider it imperative that, where this is the case, legislative measures require them to adhere to ethical standards that are equivalent or at least as demanding as those applicable to professional accountants. On this basis we acknowledge the reasons for IESBA having now proposed to add Part 5 to the IESBA Code.

In responding to q. 1 in the appendix to this letter, we point out instances where we see a need for IESBA to revise its proposals to ensure a level playing field for PAs and non-PAs. In responding to q. 10 we point out that a failure to notify the group sustainability assurance practitioner (SAP) of required information relevant to independence on the part of an individual or firm outside the group SAPs network will impact the group sustainability assurance engagement, despite the fact that this is outside the group SAP's control, since we are concerned that such instances could be more prevalent when non-PAs are concerned.

We also encourage IESBA to take an active role in fostering the uptake of Part 5 by SAPs who are not professional accountants. As assurance of sustainability reporting gains traction globally, this is likely to be a crucial issue in multinational or group sustainability assurance engagements and in value chain scenarios.

Potential to limit unduly the availability of SAPs

Sustainability reporting is still evolving globally and many reporting entities will likely face urgent and acute challenges in establishing the necessary reporting systems within tight legislative deadlines, as is the case in the European Union. It is imperative that such entities have access to support at the start but also – where assurance is mandated from the start, that the availability of SAPs is not inadvertently limited by overly stringent ethical rules, beyond those targeted to independence in fact.

Independence from value chain entities whose information may be included in the sustainability reporting subject to assurance potentially poses an enormous

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challenge in many engagements, as we outline in responding to q. 13. In responding to q. 10, we urge IESBA to clarify the timing and significance of prohibitions in a group situation (see proposed 5405.16 A1) as this is a particularly complex area.

Proposed R5600.13, which requires consideration of individual non-assurance services as well as the combined effect of such services from a firm and its network firms may pose a particular issue in practice in this new and evolving area. In this context, we do however support the proposed definition of sustainability assurance client specifically excluding value chain entities.

We would also like to point out that the concept of using materiality to evaluate a threat from the provision of a non-assurance service (5600.11 A1) demands further guidance. Specifically, this is needed because materiality cannot generally be uniformly applied across multiple sustainability disclosures, a practice that is more commonly appropriate in an audit of financial statements, but instead must be differentially applied to many disparate topics and aspects of topics, such that materiality is considered at a comparatively granular level. IESBA also needs to clarify whether the provision of a non-assurance service in relation to just a single aspect of a topic shall necessarily result in non-acceptance of an engagement to obtain assurance on an entire sustainability report or, if not, how the practitioner shall consider materiality. It is not helpful to merely refer to the issue of materiality being up to the relevant reporting standard setter.

Fee limitation proposals when the auditor is also engaged as the SAP

We do not support the first sentence of paragraph 5410.11 A1, which refers an auditor engaged to perform a sustainability assurance engagement for the audit client to 410.11.A1 – A3 of Part 4A in the context of fees charged by the firm and network firms to the sustainability assurance client. In our view this reference is not justified, and sustainability assurance should not be viewed as a service other than audit for the purposes of calculating the ratio of fees for services other than audit to the audit fee (see para. 410.11 A2¹). In our opinion – in the same way that extending the scope of the financial statement audit, accompanied by an increase in audit fees, would not pose a self-interest threat to the audit – an auditor will not be subject to an additional self-interest threat to

¹ Para. 410.11 A2 explains that the ratio of fees for services other than audit to the audit fee is a factor relevant in evaluating the level of self-interest threat when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client.

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the audit by accepting a sustainability assurance engagement. We would like to point out that German legislation (Handelsgesetzbuch: Commercial Code) specifies that the auditor shall obtain reasonable assurance on the management report as an integral part of the financial statement audit. Sustainability reporting under the European CSRD will form part of the entity's management report. Indeed, the possible safeguards listed in para. 410.11.A3 – an additional review and reducing the extent of services other than audit provided to the audit client – do not fit this scenario at all as they would unnecessarily add costs to the audit or be detrimental to the quality of sustainability assurance engagement. Ultimately this approach could force too many firms to refuse to serve as SAP, which is entirely contrary to the public interest.

In our view, it is sufficient to modify the material in paras. 5410.15 et seq. to address a potential threat arising when the total fees generated from (audit and) a sustainability assurance client by the firm expressing the (audit and) sustainability assurance opinion represent a large proportion of the total fees of that firm. The dependence on, and concern about the potential loss of, fees from sustainability assurance and other services from that client impact the level of the self-interest threat and create an intimidation threat.

Non-PA SAPs may be unable to “identify” with proposed Part 5

Proposed Part 5 is largely a copy and paste from the existing Code and due to its length complexity and heavy degree of tailoring to the circumstances prevailing for many professional accountants may mean that “other” SAPs find it difficult to identify therewith. In responding to q. 1, we note that we are concerned that – besides being largely based on the material in the extant Code – the proposals include additional material or use different wording that could be equally interpretable for audit engagements, many of which are not specific to sustainability and provide examples thereof.

Furthermore, we note that this Part includes sections on matters such as custody of client's assets and tax planning services which may currently be more likely to impact professional accountants who serve as SAPs than non-professional accountant SAPs. However, we question whether non-professional accountant SAPs, in particular, might perform different services or activities for assurance clients (e.g., certification of a specific matter later disclosed in a sustainability report) that would equally need to be addressed in new sections.

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An inability to “identify” with Part 5 could impact the take up by non-professional accountant SAPs and impede the strived for level playing field needed by users of assured sustainability reports in the public interest.

We strongly recommend the IESBA consider whether further services or activities need to be addressed and also request IESBA staff to develop a frequently asked questions paper to guide readers at a glance as to how Part 5 addresses key issues commonly faced in practice.

Information relating to entities within the value chain

Our members note that the complexity, including the number of value chain entities, their differing degrees of removal from the reporting entity (i.e., a value chain entity may include information from its own operations but also from numerous entities further up or down its own value chain), as well as frequent changes in the value chains of many potential sustainability assurance clients, means that it will be extremely challenging if not outright impossible for a group SAP to ensure that both the firm and all engagement team members are independent of value chain entities in accordance with proposed R5407.3.

Specifically, it simply is not possible to determine who the other assurance practitioners are all the way up or down the value chain (in fact, value chains are ultimately circular), so SAPs cannot determine the independence of these other practitioners of the value chain entity at which they perform assurance engagements. Furthermore, even if the SAP is able to identify the other practitioners, the SAP may not be able to determine whether the other practitioners are independent from this or other entities up or down the value chain, including the entity being reported upon.

In practical terms it would also mean that the SAP firm would have to withdraw from providing many advisory services to any entity currently within, or potentially within, the reporting entity’s value chain. This would potentially deprive many entities of much needed support in implementing sustainability reporting (we suspect that spare capacity may not be available elsewhere) – possibly with a knock-on effect on the quality of value chain information reaching the reporting entity. Therefore, we anticipate that the proposals will, in practice, be extremely likely preclude the group SAP’s engagement team from performing the assurance work “at” the value chain entity, including “at” any value chain entities further down the chain that feed into that value chain entity’s information (see para. 5407.2 A1 (a)) and force the SAP to either use the work of a sustainability assurance practitioner who separately performs the

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assurance work at the value chain entity (see para. 5407.2 A1 (b)) or 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 (see para. 5407.2 A1 (c)). Our concern is that there may be circumstances where, for quality reasons, in performing the sustainability assurance engagement in accordance with the relevant sustainability assurance standards, the firm might determine that the appropriate course of action would be for assurance procedures to be performed “at” the value chain entity (Note: we also believe IESBA should explain the meaning of “at” in this context.) but would be precluded from so doing. We suggest IESBA reconsider this and explain how a threats and safeguards approach could be applied to ensure the quality of assurance work is not unnecessarily compromised.

We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

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Executive Director

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Head of International Affairs

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Appendix

Request for Specific Comments

Sustainability Assurance

Main Objectives of the IESSA

1. *Do you agree that the proposals in Chapter 1 of the ED are:*
 - a) *Equivalent to the ethics and independence standards for audit engagements in the extant Code?*

In our view, the introduction in Section 5100 should specifically refer to the public interest imperative for SAPs to adhere to equivalent high standards of ethical behavior as compared to financial statement auditor.

For non-professional accountant SAPs who perform professional activities and have professional relationships not covered by proposed Part 5, paragraph 5100.2b(b) only encourages application of the general conduct provisions of Parts 1 to 4B of the IESBA Code. In contrast, paragraph 5400.16a stipulates that when a firm performs both an audit or review engagement and a sustainability assurance engagement for the same client Part 4A and Part 5 apply to the firm, a network firm and the audit team members. This aspect of the proposal does not ensure equivalence, nor can it engender full confidence in assurance engagements performed by non-professional accountant SAPs. We urge IESBA to ensure a level playing field – beyond mere encouragement.

A fundamental further issue we have identified relates to the extent to which auditors and SAPs in adhering to the respective requirements set by IESBA will be deemed as acting in the public interest. Proposed para. 5100.6 A1 states unequivocally that *“Upholding the fundamental principles and compliance with the specific requirements of this Part enable sustainability assurance practitioners to act in the public interest when providing sustainability assurance.”* This is at odds with the counterpart in Section 100.6 A3 of the IESBA Code, which states: *“Compliance with the requirements of the Code does not mean that professional accountants will have always met their responsibility to act in the public interest.”* The implication is that to act (fully) in the public interest auditors may sometimes need to go beyond the IESBA Code

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whereas SAPs will not need to do so. Further clarification is needed if this is not the intended message.

There are numerous differences between the proposals and the ethics and independence standards for audit engagements in the extant code, many of which are justified because they are sustainability specific. However, we are concerned that the proposals include additional material or use different wording that could be equally interpretable for audit engagements, many of which are not specific to sustainability. A few examples include:

- Different text used in para. 5110.1 A1 (iii) and R5115.1(c) et seq., which includes new text referring to public trust in sustainability information that is subject to assurance in place of discrediting the profession.
- Para. R5113.3, which adds a requirement to explain the implications of limitations inherent in the SAPs activities.
- Making 5114.1 A1 application material rather than a requirement (and changing it unnecessarily) suggests that IESSA is less demanding than parts 1 to 4A, notwithstanding the addition of R5114.2 (a).
- R5113.3 adds a requirement to explain the implications of inherent limitations of activities not in the corresponding section of the extant Code.
- R5411.2 (d) regarding using or disclosing information notwithstanding whether the information has become publicly available goes beyond the code for audit.
- There is also complexity as described 5120.5 A6 in financial audits, it is unclear why this section is required for sustainability and not in section 1 of the Code.
- R5320.9 KPIs do not correspond to balance sheet valuations and improper earnings management.

In responding to q. 9 below, we note that 5400.13a explains that when an entity is voluntarily treated as a PIE for the audit of its financial statements another firm serving as its SAP is not required to treat the entity as a PIE. Of course, this introduces divergence, which we do not see as necessarily helpful in the public interest, nor in view of the need to ensure a level playing field we refer to in our cover letter. We suggest this is an issue to be discussed with the IAASB as a matter of priority.

b) Profession-agnostic and framework-neutral?

The copy and paste approach used in developing proposed Part 5 will likely mean that IESSA will be difficult for non-audit practitioners to interpret and implement in practice. Many common terms are used throughout the standards

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that have a narrower understanding within the accounting profession and will require further guidance for non-PAs.

There are also numerous instances where a course of action is suggested as a possible safeguard, including consulting a professional body (e.g., 5115.2), although not all SAPs may be expected to have such a body at their disposal. Arguably in some such instances different practicable safeguards might be envisaged. That said, we note “new” text in para. R5410.21 (a) (ii) dealing with fee dependency issues that would allow an exception to take account of circumstances where, in the relevant jurisdiction, an SAP has no designated regulatory or professional body from whom concurrence to overstepping the Code’s fee dependency thresholds for a limited period may be sought. In this case, recourse to those charged with governance (TCWG) is permitted. To engender a level playing field, on the assumption that IESBA believes this is an adequate safeguard, it ought to apply to all SAPs (i.e., (iii) ought to be added to allow all SAPs to alternatively obtain the required concurrence from TCWG).

We also suspect that non-PAs may find it difficult to identify with much of proposed Part 5 if they typically provide services or perform work not specifically addressed therein. They also may be less able to identify with activities such as custody of client assets or tax planning services that are traditionally more likely to feature in the accountancy profession. We therefore suggest IESBA consult fully with non-PA SAPs to ensure Part 5 is adequately tailored to this constituent.

Our concern is that such aspects of the proposals could limit the uptake of Part 5 by non-PAs and lead to diversification in practice, which is not in the public interest. We therefore urge the IESBA to ensure all SAPs can identify with Part 5.

The new text addressing complexity (proposed 5120.5.A6-A8) is – at best – confusing. It appears to refer to the potential complexity in the subject matter of a sustainability assurance engagement. If so, matters such as “*Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the sustainability assurance practitioner has made.*” (5120.5A7) and “*Analyzing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.*” and “*Using technology to analyze relevant data to inform the sustainability assurance practitioner’s judgment.*” as well as “*Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.*” (5120.5 A8) ought to be issues for the IAASB to address in ISSA 5000, as these are performance

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issues. If this is not intentional, we suggest further clarification be added to ensure SAPs understand IESBA's intent in this context.

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?*

We refer to our comments in the accompanying letter.

Subject to our comments on specific differences, we agree that it is appropriate for the proposals to be closely aligned to the IESBA Code.

As explained in our response to q. 1 above, we question whether sufficient consideration has been given to addressing potential equivalents throughout proposed Part 5. Elsewhere we point out that safeguards involving recourse to a professional body might be impractical for SAPs, as there may be no such body. It is also not clear whether IESBA is justified in always assuming confidence in that body's potential to provide advice or determine what is in the public interest. There could also be a need for IESBA to address other issues, for example, whilst e.g., 5120.6 A3 explains that a self-interest threat is the threat that a financial or other interest will inappropriately influence a sustainability assurance practitioner's judgment or behavior, it would be helpful to a) explore what a potential "other interest" might constitute for non-accountants and b) whether there may be further factors beyond those now accepted in a primarily financial environment that might similarly influence a SAP. We therefore urge the IESBA to consider whether there are possibly additional "new" sources of potential bias to include in 5120.12 A2.

Definition of Sustainability Information

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

No. The proposed definition of sustainability information is seriously flawed. The definition is not a stand-alone definition as it references scope determined by other authorities in subsection (b) that can alter the meaning of the term and is therefore ambiguous.

Furthermore, the meaning ascribed to the term essentially corresponds to sustainability matters from ED ISSA 5000 rather than to sustainability information as defined in ED ISSA 5000, which will clearly be unacceptable.

We urge the IESBA and IAASB to coordinate in this regard in finalizing their respective projects.

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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?*

The stand-alone nature of Part 5 does not reflect the fact that the auditor could be the SAP and, where this is the case, there could be the same or different oversight authorities involved. In our view, this potential scenario needs further consideration.

In this context, we note that the section on confidentiality proposed in para. R5114.3 also refers to the potential “use of” confidential information, citing some examples. In our opinion, potential coordination and collaboration with a financial statement auditor ought to be an example addressed more explicitly here, when the SAP is not the financial statement auditor, as the potential for, and possible limitations governing, coordination and collaboration (including the role of client consent) need to be clear to both financial statement auditors and SAPs. As we have noted in response to q. 7 below, the issue of confidentiality restrictions in national legislation also needs to be addressed. We note that IESBA proposes new text in this Section to address possible use for training purposes (5114.3 A3) but has neglected to address this important issue.

As noted in the overall comments, the considerable number of unwarranted differences between the ED and the other parts of the code will make compliance unnecessarily complex and will likely lead to further unnecessary divergence in future.

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 agree that the International Independence Standards in Part 5 should apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements as established in paragraph 5400.3a.

Whilst we accept that the proposals are intended to be framework and profession agnostic, because the intent is to have an equivalently stringent environment for sustainability assurance as for the audit of financial statements,

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we are concerned to note that proposed para. 5400.4 – unlike its counterpart in the IESBA Code – does not include a reference to ISSA 5000 or to ISQM 1, nor does it explain that these standards establish responsibilities within firms and engagement teams. Some form of acknowledgement in the application guidance for this section would be helpful; not least to ensure that when other standards are applicable readers can refer to ISQM 1 and ISSA 5000 to gain an understanding of how assignment of responsibilities might be achieved.

As explained in our response to q. 1, we disagree with the use of the term “encourage” in proposed 5100.2b(b) where a non-PA SAP is only encouraged to apply the general conduct provisions of Parts 1 to 4B of the IESBA Code.

Structure of Part 5

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

In line with our comments elsewhere concerning the appropriateness of equivalency for professional accountants engaged as auditors and SAPs, whilst we note a few new bullet points, we urge the IESBA to consider whether further “new” examples might be needed in the Section 5270 relating to potential pressures facing a SAP – as opposed to over- or under-stating financial amounts, a SAP may be subject to pressures from the client connected with greenwashing (i.e., a desire to appear greener or less green than reasonably substantiable).

NOCLAR

7. *Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other?*

We understand that an SAP might encounter or be made aware of NOCLAR or suspected NOCLAR that could impact both the reporting entity’s financial statements and sustainability information and thus acknowledge that reference is made to both in Section 5360. Our concern is whether this might give rise to an expectation that cannot be addressed if the SAP does not report NOCLAR to the auditor either because the SAP had not become aware thereof or is prevented by confidentiality provisions (legal or within a Code of conduct – here

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IESBA should be clear as to this issue given the confidentiality provisions in the IESBA Code) from informing the financial statement auditor of such instances. It may appear that the auditor and SAP should have had better cooperation, leading to a reputational issue.

In some jurisdictions, like Germany, laws currently prevent financial statement auditors from such communication, although we have recommended to the German legislator that this be addressed in transposing the CSRD into German law. In addition to the issue of confidentiality, we do not believe use of the term “shall consider whether to communicate ... to ...external auditor ...” in para. R5360.18a is helpful, because could be read to imply the SAP has a choice, whereas the intent is for all NOCLAR to be communicated unless doing so would be contrary to law or regulation in the specific circumstances of the engagement. We therefore suggest the wording be appropriately revised to align to that of para. 5360.18s A2 to emphasize the impact on audit quality aspect. Furthermore, given the importance of NOCLAR, considering whether management or TCWG have already informed the entity’s external auditor about the matter (para. 5360.18a A1 and 5360.34 A1) needs to go hand in hand with a consideration of whether the information provided was complete and accurate (i.e., it is not an absolute without further consideration on the part of the SAP). Inconsistency between jurisdictions will likely prevent effective and consistent application of the proposed approach and is not in the public interest.

We support the equivalent approach to NOCLAR being based on a SAP possibly encountering or being made aware of NOCLAR or suspected NOCLAR, but are concerned that public expectations may be unrealistic in this area, as sustainability is a very broad remit governed by a vast number of relevant laws and regulations. We therefore urge IESBA to take steps so as to mitigate the expectations in this area. That said, we also suggest IESBA ensure further specifically sustainability-related examples of laws and regulation be included in 5360.5 A2, including e.g., those that seek to protect biodiversity, or ensure the proper functioning of a circular economy. As sustainability reporting develops further IESBA may review this periodically. Para. 5360.7 A2 could be clearer – specifically, does the term “stakeholder” include the environment? For example, under the EU’s double materiality approach, a SAP may become aware of instances of NOCLAR that have an external impact on the environment that may not necessarily immediately impact the reporting entity.

With regard to 5360.7 A3 we would like to point out that under legislation in some jurisdictions (e.g., the EU’s expected Corporate Sustainability Due Diligence Directive (CS3D)) a SAP might become aware of NOCLAR committed

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by a party within the entity's value chain which may therefore impact the reporting entity whose sustainability information is subject to the assurance engagement. Contrary to the requirement in R5360.9 in conjunction with the statement in 5360.7 A3 outlining what the section does not address, we suggest it would be in the public interest for this Part of the Code to provide guidance as to ethical action when a SAP encounters such circumstances (i.e., IESBA might consider a similar – appropriately modified – approach to that applicable to groups in para. R5360.16).

8. *Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED)*

We would support IESBA addressing this. However, to ensure para. R360.15 results in appropriate action and does not lead to expectations that cannot be met, we suggest instead of requiring a PAIB to only determine whether disclosure of a NOCLAR or suspected NOCLAR is needed, this section should also require the PAIB to 1) ensure disclosure is permitted, and 2) communicate to both the auditor and SAP, where these are not the same practitioner.

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?*

Yes. This seems to be the most pragmatic approach for IESBA to take at present. It may be too early to be definitive, since legislation – or public opinion – could foresee other factors in determining what constitutes a PIE for sustainability perspective.

For example, perhaps entities in a particular industry or carrying out a particular range of activities might be required by law to be subject to the “higher scrutiny” in their sustainability reporting currently required for PIEs in the field of financial statements. Although the discussion of the definition of a PIE is ongoing as part of the IAASB PIE track 2 project, we consider that benefits of a consistent definition would outweigh the costs of a differential approach currently.

We note that 5400.13a explains that when an entity is voluntarily treated as a PIE for the audit of its financial statements another firm serving as its SAP is not required to treat the entity as a PIE. This introduces divergence, which we do not see as necessarily helpful in the public interest. We suggest this is an issue

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to be discussed with the IAASB as a matter of priority. As a minimum, however, we suggest the SAP be required to consider the criteria that led the financial statement auditor to voluntarily treat the entity as a PIE – and to determine why this would not be appropriate for the purposes of sustainability assurance.

In further considering the desirability or otherwise of different approaches IESBA should also consider whether to include material pointing out that a SAP may voluntarily treat an entity as a PIE even when the financial statement auditor has not voluntarily elected to do so. If added, this would also have to be linked to the transparency requirement in R5400.25. Para. 5400.16a explains that for firms who perform both a sustainability assurance engagement and an audit or review engagement for the same client the firm, a network firm and the audit team members are subject to the provisions in the Code applicable to audit and review engagements, including Part 4A, and this Part. This is likely to add considerable confusion if the same firm voluntarily treats the client as a PIE for the audit but not for the sustainability assurance engagements or versa vice.

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.*

As a general remark, this section is highly complex. Without supporting guidance and further clarification, we believe this will likely not be suitable to foster acceptance of Part 5 by non-PA SAPs, nor consistent application in practice. We support the IESBA working further to address this, as explained in the Explanatory Memorandum accompanying this Proposal.

In addition, in order to understand how the prohibitions listed in 5405.16 A1 are to work in practice, it would be helpful for IESBA to be clear as to the impact of the timing of such services provided in the past and discuss issues such as the extent to which they might result in a prohibition due to a self-review threat.

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?*

Yes, we support IESBA specifically addressing group sustainability assurance engagements. It is important that IESBA's approach is aligned to that of the

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IAASB's in developing ISSA 5000 further. We therefore urge the two Boards to confer closely in this context.

Furthermore, section 5405 is, even with a good understanding of defined terms, extremely complex, which is potentially detrimental to consistent application.

As pointed out in proposed 5405.2 A2: *"A component sustainability assurance firm that participates in a group sustainability assurance engagement might separately issue an assurance opinion on the sustainability information of the component sustainability assurance client. Depending on the circumstances, the component sustainability assurance firm might need to comply with different independence requirements when performing assurance work for a group sustainability assurance engagement and separately issuing an assurance opinion on the sustainability information of the component sustainability assurance client for statutory, regulatory or other reasons (emphasis added)"*.

It would be helpful for the IESBA Code to clearly explain in the introduction to this section when – in compliance with the IESBA Code – a group SAP cannot use the work of a component SAP. Sustainability assurance clients may wish to avoid potential duplication of work and costs in engaging SAPs that can serve as component SAPs in a group scenario.

- 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)?*

Yes. We support consistency.

- 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?*

Yes. In principle we agree that this is a pragmatic approach.

However, we are concerned that proposed R5405.7: *"In relation to related entities or components within the group sustainability assurance client other than those covered in paragraph R5405.6, a member of the group sustainability assurance team within, or engaged by, a component sustainability assurance firm outside the group sustainability assurance firm's network shall notify the*

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component sustainability assurance firm about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence in the context of the group sustainability assurance engagement (emphasis added).” may pose a practical challenge in terms of potential for second guessing with the advantage of hindsight. Our concern here is that the onus is on the individual to make the required notification, whereas any failure to do so impacts the group SAP and the trust in the engagement. We have a similar concern regarding proposed R5405.13.

- 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”)?*

In our view, it would make good sense for the definitions to be aligned with those in ISSA 5000. We therefore urge the IESBA to closely coordinate with the IAASB in finalizing these definitions. However, under some sustainability reporting frameworks the boundaries of entities whose information is included within group sustainability reporting may not be the same as for the consolidated financial statements of a group. This might cause unforeseen problems in practice, as the more entities that SAPs need to be independent of, the more challenges firms face in ensuring compliance by all concerned.

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?*

The text is complexly worded. Our comments in response to q. 10 apply equally to this section.

We do not support this section fully and suggest that it be aligned to the IAASB's approach in ISSA 5000 as this area is a key issue for sustainability assurance, since the ability of the practitioner to obtain information from other practitioners they depend on to provide assurance at the level required is also likely to be limited when they are not able to direct, supervise and review their work.

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Furthermore, we suspect that in practice work already performed by other practitioners (i.e., before checking whether the required level of independence had been achieved) may not be able to be used.

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?*

No. We do not believe it is necessary for IESBA to attempt to define this term. Indeed, the proposed definition only refers to concepts defined in the applicable sustainability reporting framework and is therefore not a definition. There is no definition for “value-chain” in the ISSA 5000 ED so far. If a definition is required, this should be agreed and aligned with the IAASB sustainability project.

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?*

As outlined in our cover letter, our members anticipate that most, if not all, potential SAPs will be extremely challenged to comply with R5407.3: *“If the firm performs assurance work at a value chain entity for the purposes of the sustainability assurance engagement, the firm and members of the sustainability assurance team shall be independent of the value chain entity in accordance with the independence requirements of this Part that are applicable to a firm and a sustainability assurance team member, as applicable, with respect to a sustainability assurance client.”* Our concern is that this provision will – in practice – lead SAPs not to seek to perform work “at the value chain entity” (whatever “at” means will need further clarification), even though it may impact the quality of the assurance engagement.

Furthermore, the proposed text is confusing, especially considering sections 5407 and 5700 together, which appear to overlap, and the relationship to text that mentions of value chains elsewhere (e.g., 5300.6 A1, third bullet point and 5300.7 A4a). More fundamentally, the threat to independence will depend on the nature of the value-chain entity and the relative significance of information stemming therefrom.

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*

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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?*

If a firm uses the work of another SAP who is independent of the value chain entity, we see no compelling argument that there is a sufficient threat to require that firm to also be fully independent of the value chain entity under the IESBA Code and support the approach in R5700.4.

We refer to our cover letter where we explain our concerns as to the potential for the proposals to limit work done "at a value chain entity" even when this would improve the quality of the assurance obtained. We do not believe SAPs will be able to comply with the required level of independence from value chain entities. Instead, a threat and safeguards approach should apply to mitigate the significance of any possible threat (i.e., this should include a specific consideration of the significance of the information from the value chain entity).

- 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?*

No. We consider that the guidance is too rigid to be applied universally. Rather there should be more scalability to the requirements to enable a proportionate approach depending on the significance of the "value-chain" entities and the information reported on them.

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)?*

As stated in our cover letter, sustainability reporting is still evolving globally and many reporting entities will likely face urgent and acute challenges in establishing the necessary reporting systems within tight legislative deadlines as

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is the case in the European Union. It is therefore imperative that such entities have access to support at the start but also – especially where assurance is mandated from the start – that the availability of SAPs is not inadvertently limited by overly stringent ethical rules, beyond those targeted to independence in fact.

It would be helpful for IESBA to be clear as to the impact of the timing of non-assurance services provided in the past and discuss issues such as the extent to which they might result in a prohibition due to a self-review threat.

Not all SAPs will be familiar with the application of the IESBA's conceptual framework. We therefore suggest that requirement in R5600.9 "*the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence ...*" needs further clarification as to how exactly to apply the conceptual framework – just listing factors to consider will likely not be sufficient to drive consistency.

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?*

Yes.

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

We urge IESBA to reach out to SAPs to assist them in identifying such services.

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)?*

We strongly disagree with the proposed approach whereby IESBA clearly assumes that a self-interest threat is created when a financial statements' auditor accepts a sustainability assurance engagement.

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As pointed out in our cover letter, we do not support the first sentence of paragraph 5410.11 A1, which refers an auditor engaged to perform a sustainability assurance engagement for the audit client to 410.11.A1 – A3 of Part 4A in the context of fees charged by the firm and network firms to the sustainability assurance client. In our view this reference is not justified, and sustainability assurance should not be viewed as a service other than audit for the purposes of calculating the ratio of fees for services other than audit to the audit fee.

We would also like to point out that when the financial statement auditor also performs the sustainability assurance engagement for the same client this may also have a positive impact on the quality of the audit, since the knowledge of the entity its environment and internal controls relevant to reporting will be broadened.

Other Matters

18. *Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?*

We refer to our cover letter where we suggest IESBA request staff to develop an FAQ to provide an “at a glance” reference to the response to common questions and discuss the need to ensure non-professional accountants can better “identify” with Part 5.

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

We refer to our cover letter.

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Sustainability Reporting

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

20. *Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information?*

The quality of sustainability reports has a key impact on sustainability assurance. Whilst we believe that PAIBs and non-professional accountants who prepare sustainability reports should act to the highest ethical standards, we consider that expansion of the code to all preparers would be a distraction at this stage. IESBA's current focus should be on achieving internal consistency of the Code and with the IAASB sustainability project.

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?*

Given our focus on assurance, we have chosen not to respond to the questions relating to Chapter 4.

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?*

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

Given our focus on assurance, we have chosen not to respond to the questions relating to Chapter 4.

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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.

In our response to the IAASB, we explained that given the length and complexity of the standard, the need for jurisdictions to translate adopt and potentially adapt the standards, the need to provide implementation guidance and training to practitioners and regulators, and the fact that early application of standards that have been issue is permitted, we believe that a (mandatory) effective date should be at least two years from the date the standard is issued.

Request for General Comments

a) Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)

We anticipate that SMPs are likely to have serious difficulties in applying the IESSA as drafted. In particular, the requirements to ensure compliance by other practitioners and independence with value-chain entities (as well as when using the work of experts) will be challenging as explained above.

We also note that the many differences between the extant code parts 1 to 4A would also represent a challenge for SMPs where they would need to adjust their internal quality management systems. This will also pose a challenge for larger networks, but SMPs will be particularly disadvantaged because they cannot leverage the effort as widely in a smaller network.

b) Regulators and Oversight Bodies

N/A.

c) Sustainability Assurance Practitioners Other than Professional Accountants

N/A.

d) Developing Nations

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N/A.

e) Translations

We have not yet identified any specific issues.