



May 10, 2024

International Ethics Standards Board for Accountants

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, NY 10017

Via Email: KenSiong@ethicsboard.org

Re: Proposed International Ethics Standards for Sustainability Assurance and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

Dear members of the International Ethics Standards Board for Accountants:

The Professional Ethics Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide comments to the International Ethics Standards Board for Accountants (IESBA) regarding the IESBA proposal on the Proposed International Ethics Standards for Sustainability Assurance and Other Revisions to the Code Relating to Sustainability Assurance and Reporting. The PICPA is an association of more than 18,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is a cross section of our membership, with practitioners from large, regional, and small public accounting firms, members serving in business and industry, and accounting educators.

### **General Comments**

Overall, the committee supports the IESBA's efforts to develop ethics standards applicable to practitioners performing sustainability assurance engagements. Fundamentally, the PICPA has concerns with the broader effort to develop profession agnostic standards without evaluating how the standards work together with education, training, peer review, licensure, regulatory, and enforcement mechanisms similar to those of PAs. While we support strong ethics among all professionals, we believe further analysis should be done to ensure that any broadening of the Code to non-PAs includes a sufficiently rigorous standard-setting, and regulatory framework so as to not dilute its value. The committee is further concerned regarding the impact this will have on the PA pipeline, which is facing significant constraints. Questions to be considered include how practitioners could circumvent

the education, regulatory and licensure requirements and still perform assurance engagements. This could put additional pressure on the PA pipeline, which is not in the public interest. [Question 2.]

## Specific Comments

Our specific concerns with the proposal include the following:

1. Noncompliance with Laws and Regulations (NOCLAR) - We do not agree with the proposed requirement that the auditors should communicate NOCLAR to sustainability assurance practitioners (SAPs) outside of the firm or firm's network. State statutes within the U.S. include confidentiality provisions that would prohibit practitioner compliance. In addition, given the ways in which sustainability assurance is proliferating, there could be SAP's performing work at a client which the auditor is not aware of. Finally, the committee requests further clarification of the concepts included in the proposed language "generally recognized to have a direct effect on the determination of material...impacts...in the client's sustainability information." [Question 7]
2. Independence for sustainability assurance professionals [Question 4]
  - a. Financial reporting framework versus sustainability reporting - The committee supports robust independence requirements for SAPs. However, the committee does not necessarily support the approach in the proposal, which seems to mirror the independence requirements for financial statement audits. The committee notes that the content of a sustainability report differs from the financial reporting ecosystem; (i.e., the sustainability report may not include information from all the entities included in the financial statements). The committee believes that the related independence requirements should be tailored to the specifics of the sustainability report and not necessarily to all entities included in the financial statements. Using a threats and safeguards approach to independence would address this concern. The conceptual framework could then be used to address any related entities not included in the sustainability report.
  - b. Consistency among SAP practitioners - The committee believes that the requirements for non-PAs should be as rigorous as PAs. Therefore, as PAs must apply part 4B independence standards to a sustainability assurance engagement not meeting the

criteria in paragraph 5400.3a, the committee believes that non-PAs should also be required to apply part 4B and not simply “encouraged” to apply part 4B for the same engagements.

3. Question 5 - IESBA is proposing that the International Independence Standards in part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a?

Response - The committee finds the criteria under the second bullet point to be unclear; specifically, proposed 5400.3a(b) (ii) “publicly disclosed to support decision-making by investors and other stakeholders.” The committee believes that the timing of when the information is publicly disclosed is not always known, and/or a decision to make it publicly available could be made after the engagement has been completed. The committee recommends further clarification (e.g., consider referring to whether management intends to make the information publicly available). At the same time, it is not clear whether simply by publishing the information publicly that the engagement has the same level of public interest as financial statement audits. Therefore, the committee supports the proposed criteria under 5400.3a(b)(i) “required to be provided in accordance with law or regulation” without the second bullet point.

4. Inconsistencies with International Standard on Auditing 5000, General Requirements for Sustainability Assurance - In certain instances, the committee notes inconsistencies with the standards being developed by the International Accounting and Assurance Standards Board (IAASB) (e.g., whether NOCLAR applies to value chain entities, whether or not SAPs are required to comply with ISQM 1 or a standard at least as demanding, requirements for the use of another practitioner and proposed 5406 [Question 12] and considerations when assurance work is performed at, or with respect to, a value chain entity and proposed 5407 [Question 13]). Ultimately, these differences should be eliminated.
5. Performance requirements - The committee is generally concerned with the recent trend of including performance requirements in the Code. The committee finds this to be contrary to the public interest as practitioner compliance may be hampered by a lack of awareness of any incremental performance requirements. The committee noted these performance

requirements in the recently completed standards on Noncompliance with Laws and Regulations and on Tax Planning Services. The committee has similar concerns that performance requirements are being incorporated into this proposal including requirements related to group assurance, another practitioner and value chain. Ultimately, it is unclear whether the performance requirements will be aligned with those of the IAASB or other sustainability assurance standards.

6. Question 24 - Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?

Response - The committee believes that this timing is rushed. There are many significant public interest considerations that need to be evaluated prior to broadening the standards to non-PAs. Aside from these significant conceptual questions, there are many areas of the proposal that need to be evaluated and reworked before a final can be issued. We recommend a second exposure period and delayed effective date.

We appreciate the IESBA's consideration of our comments. We are available to discuss our comments with you further. Please reach out to me at [ahenry@picpa.org](mailto:ahenry@picpa.org).

Sincerely,



Allison Henry, CPA

PICPA Vice President - Professional & Technical Standards

cc: Kim Lyons, Chair, PICPA Professional Ethics Committee